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PROVINCE OF BRITISH COLUMBIA

BUDGET 1988

The Honourable Mel Couvelier
Minister of Finance and Corporate Relations

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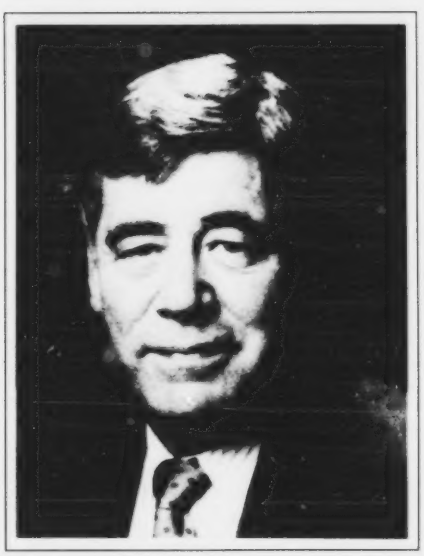
OF
BRITISH
COLUMBIA

BUDGET 1988



Delivered in the
Legislative Assembly
Thursday, March 24, 1988
by the
Honourable Mel Couvelier

Minister of Finance
and Corporate Relations

M.L.A. for Saanich and the Islands

"We are building a long-term economic plan for the province and a strategic plan for government — a plan forged from the dedication and hard work of all British Columbians."

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BUDGET SPEECH 1988

Introduction

Mr. Speaker, I am proud to present the second budget of this administration.

In our 1987/88 budget we set out the economic and fiscal policies that gave a fresh start. These policies have guided our decision-making again this year.

Traditionally, a budget reports on the year past and sets a course for the year ahead. This budget continues that tradition and goes further — this budget creates the structures which help remove the uncertainties of the future. This budget begins a long range outlook so that we have some fiscal flexibility for our children's future.

We are building a long-term economic plan for the province and a strategic plan for government — a plan forged from the dedication and hard work of all British Columbians.

This budget builds on what we have learned over the past year. We have worked with and heard from many British Columbians . . . people from business and universities, labour and the professions . . . people from every region of the province.

One of the strongest messages we have heard is that we must set a firm and clear course that provides stability and which will allow us to seize any opportunity with confidence and appropriate resources.

Review of 1987/88

Last year we identified three challenges: labour relations, industrial diversification and strengthening our connections with the Pacific Rim.

We introduced the *Industrial Relations Act*, establishing a new framework for labour relations in British Columbia. The Industrial Relations Council is working. Labour and management can achieve the goals of this legislation.

The second challenge was to broaden and strengthen the province's industrial base. We are making good progress on a wide variety of fronts ranging from aquaculture to developing an International Financial Centre in Vancouver.

Some of the best ideas have come from people in the regions of the province. Regional decisions are already making a difference.

The third challenge was to promote Pacific Rim connections. Success will not come from any one initiative, but from many steps. A good example is the three-year Pacific Rim education initiative which started last year.

Increasing exports to Pacific Rim countries is a major reason for our excellent economic performance in 1987 and one key to our future prosperity.

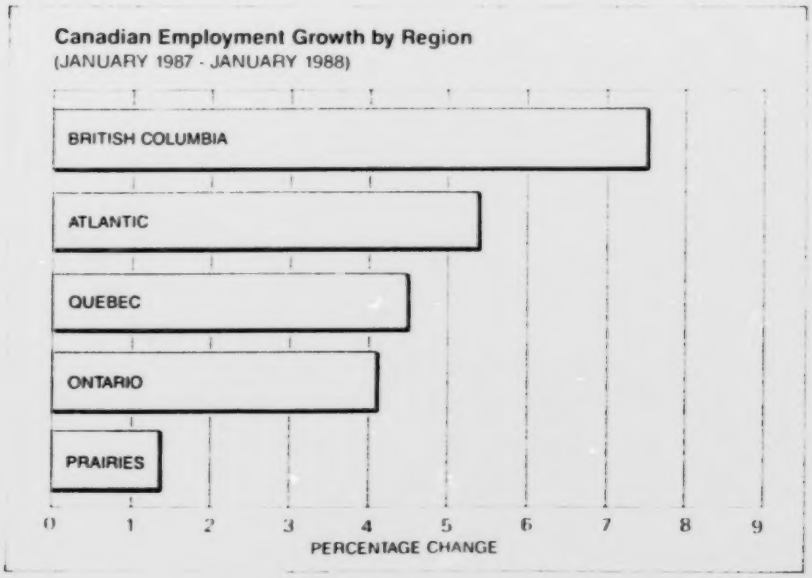
Strong economy during 1987

In last year's budget, I cautiously forecast economic growth of 1.5 per cent. I am pleased to report, Mr. Speaker, that our 1987 economic growth rate was four per cent. That extraordinary performance reflected sound fiscal management, an element of good luck and, most importantly, hard work by British Columbians.

British Columbians were the big winners. They found stable and productive work as the economy expanded.

Between January 1987 and January 1988, the unemployment rate dropped by 3.5 percentage points to 10.1 per cent; more than 90,000 jobs were created, an employment increase of 7.3 per cent.

That's an achievement unmatched by any other province.



Economic improvement province-wide

The improvement has been province-wide. Even in the Lower Mainland, where Expo increased employment during 1986, we saw further employment growth in 1987. The record volumes of export sales also contributed to job creation.

Exports will remain a critical element in job creation and we are optimistic with the outlook for trade.

Over recent years, business has invested billions of dollars in replacement and new plant and equipment. Labour and management have negotiated realistic wage increases. Furthermore, in 1987 the absence of any serious labour disputes enhanced our comparative performance.

We were also helped by international events. Commodity prices increased and the United States and Canadian dollars fell against most other currencies.

All these factors helped British Columbia firms regain old markets, penetrate new markets, increase profit margins and re-invest in plant and machinery.

Both investment and consumer spending strong

Mr. Speaker, business in British Columbia showed its enthusiasm by investing 19 per cent more in the province last year than in 1986. As a result we can look to even higher output and productivity over the next few years.

British Columbia's consumer spending has been strong, stimulated by the one per cent reduction in the social service tax last year. Retail sales increased 9.8 per cent in 1987. Housing starts rose 40 per cent, increasing from 20,700 to almost 29,000.

British Columbia's economic momentum is continuing. The prestigious Investment Dealers Association of Canada stated about our province:

> "Access to U.S. markets, combined with the added benefits of high productivity, international competitiveness and an attractive social and political environment will draw substantial amounts of investment capital, especially from Asia and Europe, to expand the manufacturing infrastructure in the province."

But, Mr. Speaker, our success will last only if we continue to work together.

British Columbia's wage structure was not competitive in the late 1970s and early 1980s. When world commodity prices and demand fell, our resource industries were devastated.

Subsequently, however, business and labour have negotiated reasonable settlements. We have regained our competitiveness. It can be quickly eroded, however, by excessive wage and price increases. The adjustment to the recent recession was hard. It would be tragic if those gains were lost.

British Columbians understand that wages in the private sector are limited by profits. In the public sector wages are limited by the taxpayers' ability to pay. Wage increases in both the private and public sector must be tied to productivity and to the maintenance of competitive position.

Business, government and labour negotiators must maintain a competitive cost base while developing methods of sharing gains when the economy is strong.

Realistic wage settlements key to staying competitive

This year we have an especially heavy bargaining calendar. We have a choice. Either we maintain this competitive position or we give it away.

This government will take a responsible approach to collective bargaining in 1988. This budget provides for fair and reasonable wage settlements for public sector employees.

Almost two-thirds of provincial government spending is for wages of government employees or employees of agencies funded by government. There are clear limits on what taxpayers can afford.

The government recognizes that public sector wage settlements can create a domino effect and trigger excessive demands in the private sector.

Planning for the Future

Mr. Speaker, I now want to talk about this government's attitude towards debt.

Debt reduces flexibility

Politicians are too easily seduced by spending requests. If we haven't got the money, it's easy to borrow. Interest costs don't seem all that threatening — at first.

But as the debt builds, growing interest payments mean fewer dollars for education and social programs. They also limit our flexibility to deal with inevitable swings in the economy.

Mr. Speaker, there can be no fresh start for our children if we continue mortgaging their future.

There can be no fresh start if we continue an addiction to spending beyond our means. This government will not leave our young people a legacy of obligations caused by our own short sighted selfishness.

Key goals in our long-range plan are eliminating the current deficit — reducing the burden of accumulated debt — stabilizing government revenues.

Development of this plan is being assisted by the Premier's Economic Advisory Council and by other leaders in the private sector.

Mr. Speaker, our strengths are the energy and talent of our people — our position on the Pacific Rim — our natural resources — the variety and beauty of our geography — and the vigour of our institutions.

Mr. Speaker, let me now describe our immediate economic outlook.

Our position in the international economy will be influenced by the major economic powers — the United States, Japan and West Germany. They must correct their trade and fiscal imbalances and fight protectionism. The world must collectively deal with the debt crisis in many developing countries.

We need a firmer resolve in Canada. The federal government must put its fiscal house in order. The Bank of Canada, when setting monetary policy, must look at conditions across the country, rather than concentrating only on central Canada.

Outlook strong, economic growth 2.7 per cent

Our British Columbia outlook is strong.

- We see steady growth in the economy of at least 2.7 per cent in 1988.
- Our exchange rate will continue providing an advantage in selling to Europe and Japan. This will help mitigate any slowdown in world growth.
- Through efforts by business and labour, our resource industries can remain competitive.
- Interest and inflation rates should be stable.
- Business capital investment will continue to stimulate the economy.
- A 4.5 per cent average growth in employment is expected.
- Retail sales will show healthy growth.

Mr. Speaker, this budget is tailored to that favourable economic outlook and accordingly the efforts of government will be directed to three areas:

- first, enhancing social services for all British Columbians;
- second, improving the competitive position of British Columbia business; and,
- third, continuing responsible fiscal management.

Enhancing Social Services

Investment in people grows

In my last budget, I talked about investing in people. This year the investment will grow.

Contributions to public school operating costs will increase by $114 million to over $1.3 billion in the 1988/89 fiscal year. This increase will be funded partly by higher school taxes on business of $46 million, with the balance paid from general revenue. The province will also provide $118 million for school debt service costs and $121 million for the teachers' pension plan.

Independent schools funding will increase to $48 million this year as a result of enrolment growth and commitments made last year.

Our Passport to Education program will receive $8.5 million in 1988/89.

My colleague, the Minister of Education is providing $15 million to upgrade and add more computers in the classroom in the first year of a multi-year program. This is one of the most important initiatives of our budget and we expect to attract great interest from the computer industry and thereby produce additional value.

Property tax relief through the homeowner grant program will be maintained. New construction, population growth and other factors will increase program costs 6.3 per cent to $299 million.

British Columbia universities will receive operating grants of $332 million this year, an increase of 5 per cent.

The new *University Foundation Act* — unique in Canada — will attract private sector tax-supported donations to our universities. I am today reinforcing this initiative with $10 million and issuing an invitation to the private sector and universities to participate with matching funds.

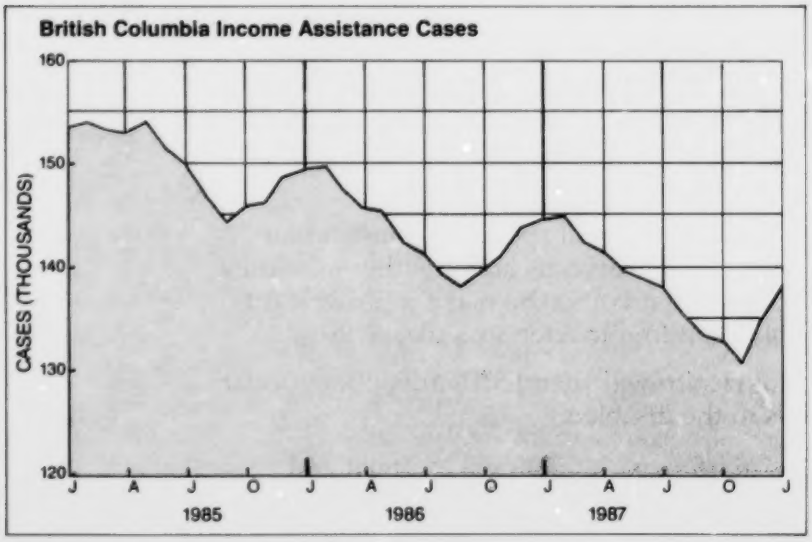
Operating contributions to colleges and institutes will total $287 million, a slight increase from last year's estimates.

British Columbia, by virtue of acknowledged expertise, was selected as the home for a new Commonwealth Distance Education Centre. The centre will provide university degree and technical programs by satellite and correspondence to other Commonwealth countries. In support of this excellence, provincial funding for distance education will exceed $17 million in 1988/89, an increase of almost 9 per cent.

My colleague, the Minister of Advanced Education and Job Training will more than double funding for the student financial assistance program to $58 million this year. This student assistance program is the finest in Canada.

Mr. Speaker, there are many in society who require the help offered through our social programs.

However, the monthly caseload of people on income assistance has declined by approximately 11 per cent since February 1985. Significantly, the average number of employable persons on income assistance has dropped by almost 20 per cent. I expect continued reductions in this caseload as a result of growth in the economy.



Last June we increased GAIN support allowances for families. In December we increased maximum shelter allowances. These will add approximately $38 million to the 1988/89 budget.

Improved delivery of social services

My colleague, the Minister of Social Services and Housing is restructuring programs to improve the delivery of social services. These changes will promote equity and consistency

across the province. The ministry will focus more specialized attention on the needs of the handicapped, families, children and those who require help to achieve financial independence. We will also ensure that assistance goes only to those who need it.

Over the next two years, approximately $15 million will be allocated to enforce court maintenance orders on behalf of income assistance recipients or others needing the program.

Funding for services to families and children has been increased by 8 per cent to $114 million. A foster parent campaign will encourage British Columbians to become involved.

Programs to strengthen the family will be funded through an allocation of up to $20 million in the New Programs vote.

Project Reconnect, a pilot project last year, will be expanded. This program links "street kids" with family, education, medical and employment services.

In co-operation with the federal government, we will provide almost 1,900 new units of social housing in 1988/89.

Services for disabled a priority

Services for the disabled remain a priority.

- The Ministry of Social Services and Housing will spend $317 million on programs for the disabled and children with special needs.
- The Ministry of Education will spend $195 million for equipment for special classrooms and on other measures, including personal attendants who make it possible for severely disabled children to attend regular classes.
- The Ministry of Health will spend $29 million for special health services to the disabled.

We will continue our efforts to relocate the disabled and people convalescing from mental illness from institutions to appropriate community care. This follows extensive consultation with the disabled, parents, staff, community groups and the communities to which people are returning.

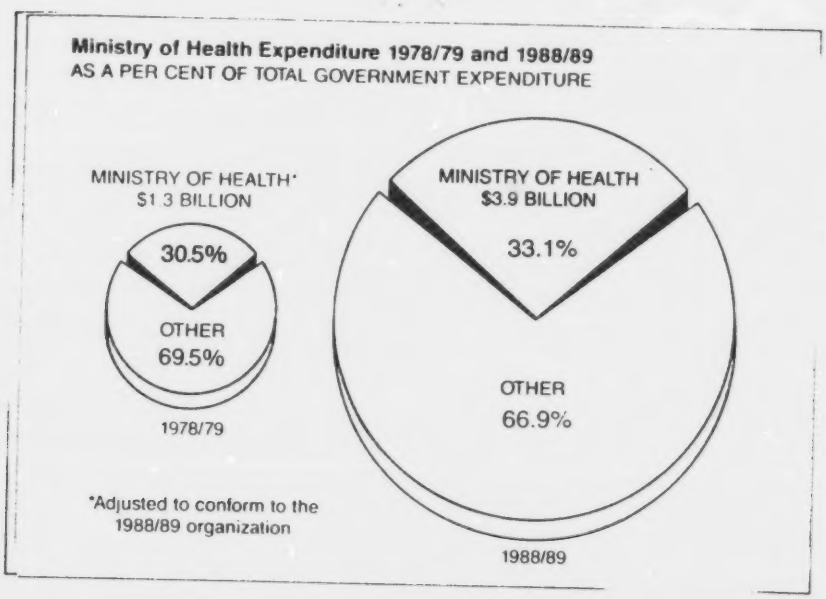
Mr. Speaker, I come now to a very important issue — health care.

This province is well served by a world class health care system. We have well-equipped hospitals. We have highly trained and committed health care workers.

But rising health care costs and the large percentage of taxpayers' dollars which health care consumes are major challenges for government.

Ministry of Health expenditure up 10 per cent

This year Ministry of Health expenditure will total over $3.9 billion, an increase of over 10 per cent from last year. That's more than $1,300 for every man, woman and child in the province. That's nearly one-third of our total budget.



The irony is that despite spending more and more dollars we are still hypnotized by curing sickness rather than keeping ourselves healthy. We have been coming at the issue backwards! Many disciplines can be utilized in maintaining health other than just the medical profession and hospital system — yet they are consuming all available funding, and their demands are insatiable! The state of wellness of our people is a much more important measure than the number of acute care beds utilized.

My colleague, the Minister of Health is exploring ways to provide certain medical services better and at less cost by using highly trained and specialized health care workers, such as nurse practitioners and midwives. He will be examining the merits of sustaining wellness rather than paying for sickness. Mr. Speaker, we support the proper use of chiropractors, podiatrists, physiotherapists, orthodontists,

massage practitioners and naturopaths. We will continue to cover these enhanced medical benefits through the Medical Services Plan, even though the federal government contributes nothing.

Continued coverage of enhanced medical benefits

Good health practice is first of all a question of personal priority. We must be prudent users of the health care system. We must culture healthy lifestyles. Health care practitioners must provide cost effective care.

What factors contribute to high health costs? Our doctors' fees remain the highest in Canada — more than 20 per cent above the national average — and we have more doctors relative to our population than other provinces. In a competitive market a high number of doctors would be a good feature. In theory, reduced prices would result. In a totally subsidized system such as ours, however, no such reduction occurs.

In an effort to inject some small element of common sense into the equation, effective May 1, 1988 MSP premiums will fund 50 per cent of physician fees and 100 per cent of the taxpayers' cost of enhanced medical benefits. Monthly premiums will range from $29 for individuals to $58 for families of three or more. These premiums are still lower than those in Ontario.

This relatively large increase will nevertheless not impact those unable to pay. We are improving the premium assistance program to ensure fairness and sensitivity. This year an additional $12 million will be provided for that purpose.

To increase cost effectiveness and awareness, computerization of the Medical Services Plan will enable doctors to bill the plan directly and print a statement for the patient.

These statements are *not bills which the patient must pay*. They will alert the patient to the cost of services and encourage responsible use of publicly funded health services.

We will also consider new computer readable medicare cards. If a subscriber chooses, vital health care information can be coded into the card. The cards will speed service and improve quality of care.

As announced in the Speech from the Throne, the Ministry of Health supported by the Greater Victoria Hospital Society and the Capital Regional District will initiate a project unique in Canada — to deliver health care through a community based integrated delivery system.

New community based integrated health delivery system

This project will be funded through the New Programs vote.

Our senior citizens are valuable members of our society requiring special attention and services. Over the next two decades the proportion of seniors in our population is expected to increase significantly. To provide for that growth, and increased costs, government will increase user fees for clients receiving extended and long term care as well as those receiving long term mental health and alcohol and drug treatment.

The fees will be increased from 75 to 85 per cent of the combined old age security and guaranteed income supplement payments. These new rates, however, will ensure that even the most needy clients will continue to have more disposable income than those in seven other provinces.

Our government will ask those who can afford to do so, to meet part of the costs of long term care by paying a proportion of the costs of room and board.

Almost one-half of total spending increase for Ministry of Health

Mr. Speaker, this budget demonstrates the government's commitment to health care. The 10 per cent increase in Ministry of Health spending amounts to $362 million — almost one-half of the increase in total budgetary expenditure.

Two significant reports on alcohol and drug abuse have been released in the past year. This chilling information tells us:

- Ten per cent of all health costs are alcohol-related. One in five British Columbians consumes enough alcohol to risk health damage.
- Over 70 per cent of all male inmates in correctional facilities were under the influence of alcohol at the time of their crime.
- One-third of time in provincial correctional centres is for drinking and driving offences.
- Over eight per cent of social welfare expenditure arises from alcohol-related problems. In many cases the problem manifests itself in child abuse or other forms of violence.
- In an average year, drinking and driving results in 200 deaths and 7,000 injuries.

Alcohol and drug abuse in British Columbia has immense social cost. More of this cost must be met from the products whose consumption contributes to the problem.

Effective April 1, 1988, the social service tax on alcoholic beverages will be increased from 6 to 10 per cent. This rate will also be imposed on draught beer. At the same time the five per cent liquor purchase fee paid by licensees will be eliminated. Funds in support of government programs will increase by $80 million in 1988/89 as a result of these changes.

The tobacco tax rate will be increased to the Canadian average to discourage smoking. Effective midnight tonight, the rate will be $1.13 for a package of 25. This tax increase will bring an additional $20 million in revenue.

$23 million more for substance abuse prevention

Our province already spends $25 million annually on substance abuse programs. I am pleased to announce an additional $23 million in 1988/89, almost doubling funds for alcohol and drug education, prevention and treatment programs.

My colleague, the Minister of Labour and Consumer Services will be the focal point for all government programs in this area.

Helping victims of crime is an essential element in our justice system and government will provide $2.1 million this year.

We will also increase funding for legal aid by 11 per cent.

Construction of three major correctional centres to replace Oakalla and the Lakeside women's facility in Burnaby will begin this year.

Mr. Speaker, our government will be spending almost $400 million in 1988/89 for capital projects. These will enhance services in health, education and public protection.

Furthermore, we will spend almost $600 million on highway construction, upgrading and maintenance. The Vancouver Island Highway project will receive $6 million for preliminary work.

The Ministry of Municipal Affairs will provide approximately $240 million to local government in revenue sharing grants. Furthermore, my colleague, the Minister of Municipal Affairs will be reviewing the upgrading and improvement of municipal water and sewer systems with local government.

Improving the Competitive Position of British Columbia Business

Mr. Speaker, I would now like to outline government's initiatives to improve the competitive position of British Columbia business.

Tax levels are crucial to this competitiveness.

Tax levels crucial for competitiveness

On January 1 of this year we reduced the general corporation income tax rate from 15 per cent to 14 per cent, a commitment announced in the 1986 and 1987 budgets. This will reduce taxes paid by British Columbia business by $25 million during 1988/89.

I am also reducing the small business income tax rate from 11 per cent to 9 per cent, effective July 1, 1988. As a result of federal tax reform changes to personal and corporation income tax rates, effective January 1, 1988, there is, again, imbalance between the small business and personal income tax rates. My tax reduction will restore the necessary balance and will save small business $18 million during 1988/89 and $30 million in the following year.

Federal tax reform will reduce our revenues because of the linkage between provincial taxes and the federal tax bases. As a result of federal changes I expect British Columbia corporation income tax revenues to increase by $33 million — and personal income tax revenues to decline by $140 million during 1988/89.

The reductions I have announced in provincial corporation income tax rates will more than offset the revenue increase resulting from the federal tax reform.

We will preserve the reduction in personal income taxes. Accordingly, the average reduction in provincial income tax for taxpayers will be $100 this year.

Provincial personal income tax down $100 for average taxpayer

I am pleased to announce two further provincial tax measures to stimulate small business activity and create employment.

The first will benefit the tourism industry, particularly small operators. Effective for the 1989 taxation year, there will be a new deduction of 50 per cent of the assessed value of all tourist accommodation, to a maximum deduction of $150,000. This change means that small resorts will not face sharply higher property taxes resulting from classification changes effective in 1989. In addition, over 1,000 properties not covered by the previous seasonal resort tax classification will have their property taxes significantly reduced.

The second measure will benefit the horse racing and breeding industry. Government will reduce its share of the horse racing tax by one-half of one per cent to three per cent with a corresponding increase in the share of tax received by the British Columbia Racing Commission. This will provide an extra $1 million to the industry.

Mr. Speaker, our government believes private enterprise works best when it works on its own. Government too often props up the inefficient and artificially interferes with the marketplace. Accordingly, my colleague the Minister of Economic Development is reshaping all our business assistance programs.

During the year, we will work with the federal government to change the emphasis from grants and loans to loan guarantees or equity participation. We plan to have new programs in place before April 1, 1989.

An important reason for this change to guarantees is that we can lever the dollar commitment four times. Our budgetary allotment in effect becomes the bad debt provision, rather than the full grant provision.

I am today providing for a regional seed capital program to encourage private sector financial institutions to get more involved in regional and small business development. Under this program, government will guarantee up to 75 per cent of individual loans made by financial institutions to small business to a maximum of $50,000 per loan. Up to $16 million will be guaranteed during 1988/89 — divided among the eight regions of the province. This program will be coordinated by my colleague, the Minister of Economic Development.

Continued economic growth depends to a large extent on business adopting new technology. Our government will support research and development by industry and universities, and provide funding from the New Programs vote.

New forest policy provides fairer return to British Columbians

Mr. Speaker, forests remain the foundation of our economy. Last October, we implemented a comprehensive forest policy with a new stumpage appraisal system, giving British Columbians a fairer return from this valuable resource.

The new policy requires that companies harvesting Crown land timber must replace it. Accordingly, silviculture spending by industry will increase five-fold over the next five years. Furthermore, I am proud to announce that my colleague, the Minister of Forests and Lands will spend more than $210 million for silviculture during 1988/89.

The new forest policy is designed to build a strong, competitive and diversified forest industry. The Small Business Forest Enterprise Program is a key to success. In 1988/89, timber sales under this program will increase to 15 per cent of the overall harvest. This budget provides $53 million to support this program.

Government will provide $4 million towards the construction of a new forest research facility at the University of British Columbia to house FORINTEK and the Forest Engineering Research Institute of Canada. We will also contribute an additional $4 million in Crown land.

Higher metal prices buoyed the mining industry in 1987. Accordingly, we have discontinued direct exploration grants to mining companies under the Financial Assistance for Mineral Exploration Program.

To encourage future development of the mining industry, my colleague, the Minister of Energy, Mines and Petroleum Resources will:

- increase spending by one-third, to more than $6 million on base geological mapping;
- provide support of $25 million to help the Cassiar Mining Corporation develop new asbestos deposits. This will extend the life of the community of Cassiar for up to 20 years beyond 1991, when current developed reserves will be exhausted;
- extend British Columbia Hydro's power grid to Stewart thereby ensuring reasonably priced power for existing and future forest and mining activity; and,
- reduce the Mineral Resource Tax rate from 17.5 per cent to 15 per cent and the Mining Tax rate from 15 per cent to 12.5 per cent effective July 1, 1988.

Mining initiatives focus on taxation, infrastructure and research

These initiatives reflect the government's belief that the future of the mining industry depends on a competitive taxation system, the provision of basic infrastructure, and research in key areas.

In support of the agricultural sector, over $4 million will be spent during the 1987 crop year on the British Columbia feed grain market development program. My colleague, the Minister of Agriculture and Fisheries will consider extending this program to the 1988 crop year.

Mr. Speaker, this budget includes a reduction in 1988/89 spending under the farm income insurance program. There are two reasons for this:

- first, good livestock prices have reduced the need for government assistance; and,
- second, the federal government is now contributing to a price stabilization agreement with apple producers.

The tourism industry has had a very encouraging year. Tourism marketing in 1988/89 will emphasize partnership programs with regional tourism associations and private sector entrepreneurs.

The Pacific Rim Institute for Tourism, opening tomorrow, is funded jointly by the provincial and federal governments. It will develop accredited education programs leading to jobs and promotional opportunities for many British Columbians. The institute will also market these training programs in other countries.

The financial sector is of special importance, Mr. Speaker, and over the past 18 months, my ministry has worked hard to strengthen it.

Improved securities' regulation leads to increased confidence and investment

We've improved regulation of the securities industry, the insurance industry and provincially regulated savings institutions, thereby increasing confidence and investment in British Columbia.

Our captive insurance legislation has already attracted five new firms to British Columbia, with many more expected.

We will consolidate and modernize the current *Credit Union Act*, *Trust Company Act* and *Insurance Act* into a single, comprehensive statute, unique in Canada. This new statute will increase consumer protection and confidence in the financial sector while making it easier for firms to do business.

Furthering our International Financial Centre goal, legislation is expected to be passed this session. The federal government has now designated Vancouver as an international banking centre.

Mr. Speaker, international trade is the bedrock of our prosperity.

While the United States will remain our biggest trading partner, we must tap the tremendous economic potential in other Pacific Rim nations.

Continued emphasis on Pacific Rim

To assist British Columbia businesses establishing in the Pacific Rim market, we are considering the creation of an "incubator facility" in Hong Kong for British Columbia entrepreneurs.

British Columbians need to develop skills, experience and contacts in the Pacific Rim. We will facilitate a Pacific Rim exchange program involving government and private sector managers.

We will continue our support of groups such as the Asia Pacific Initiative Advisory Committee and the Asia Pacific Foundation.

And we will continue with the Pacific Rim program in education. This year, government will contribute almost $4 million to fund exchanges of British Columbia students and teachers, to revise the school curriculum to incorporate Pacific Rim cultural material and to increase teacher training in Asian languages.

Finally, as announced in the Speech from the Throne, we will introduce a trade bill to help us strengthen our Pacific Rim ties.

Responsible Management

Strong commitment to fiscal responsibility

Mr. Speaker, I wish to stress this government's commitment to fiscal responsibility.

We do not want to follow the course charted by our federal government. For almost 20 years, federal expenditures have exceeded revenue, creating a massive federal debt with interest charges close to 25 per cent of total expenditure.

By comparison, our debt charges seem modest at less than 6 per cent of total expenditure. But the $600 million required in 1988/89 would be better spent on education or social services or even to reduce everyone's income tax by $210.

Our fiscal policy goals are threefold: elimination of the current deficit — reduction of accumulated debt — stabilization of revenue.

To help achieve this I am announcing the establishment of two new funds.

The first fund — the Budget Stabilization Fund — will help us absorb fiscal shocks.

Budget Stabilization Fund to act as fiscal shock absorber

Due to the boom or bust nature of the British Columbia economy government revenues have been difficult to predict. Long range financial planning, while desirable, was an unrealizable ambition. Certainty is needed for any planning exercise — whether in the private or public sector.

The new Budget Stabilization Fund will assist in addressing this problem. In years when revenues peak sharply, transfers will be made to the Fund. In years of revenue shortfall, transfers will be made from the Fund. Our objective will be to avoid borrowing or cutting back social programs.

As a result of our extraordinary revenue performance during 1987/88, I will transfer $450 million into the Budget Stabilization Fund. This includes $13 million in surplus lottery funds and in future years, I will transfer other surplus lottery funds to the Budget Stabilization Fund.

The second fund I am announcing relates to the government's privatization program. Experience shows that when programs are privatized, costs fall and service improves. Private firms find better ways to do business and they expand and create jobs.

We intend to review government programs regularly, discontinue those no longer relevant and privatize where appropriate.

The government will receive substantial proceeds from privatization and the sale of assets.

Privatization Benefits Fund to receive proceeds from privatization

To ensure the one-time proceeds are not used for on-going programs, they will be put directly into the Privatization Benefits Fund. The fund will be capitalized as our privatization program continues.

Income earned by the Privatization Benefits Fund each year will be transferred to the General Fund, initially to reduce the deficit and thereafter to contribute to general revenue. The Privatization Benefits Fund will be a benefit for our children and our children's children.

Fiscal responsibility means good public management and getting value for the taxpayers' dollar.

Through improved management and increased efficiency we are able to reduce the number of government employees. Staffing requirements for this year have been reduced by 10 per cent.

Mr. Speaker, individuals and businesses have a responsibility to pay a fair share for government services that benefit them directly.

User fees encourage responsible use

User fees are important because they are targeted to those who benefit, encourage responsible use, and reduce the burden on the general taxpayer. Ministries will increase a number of fees this year, resulting in additional government revenue of $40 million.

Matching government revenues to the cost of services also applies to some taxes.

I am increasing rural area property taxes for both homeowners and business, effective for 1989. For the average rural homeowner the increase will be $39 annually. The average rural tax bill still remains well short of the government's cost of providing services. This change will increase government revenue by $8 million in a full year.

The tax rate on all property insurance premiums, is four per cent, except for motor vehicle coverage. I propose to remove this exception by increasing the insurance premium tax on vehicle insurance to four per cent. This will increase government revenue by $6 million in 1988/89.

Motor fuel tax rates, adjusted quarterly to reflect current gas pump prices, are projected to decline by more than one and one-quarter cents on April 1. To increase government's revenue, I propose to increase the tax on motor fuel by approximately one cent a litre. This measure will increase government revenue by $45 million during 1988/89.

Even with this change, all motor fuel tax rates will decline on April 1.

An extensive set of property, fuel and social service tax benefits has been established to benefit bona fide farmers.

In last year's budget I proposed increasing the value of farm sales needed to qualify for these tax benefits from $1,600 per year to $5,000 per year. Over the past year, many rural residents have expressed concern about the proposed changes. Accordingly, there will be no change for 1989. A further announcement on farm tax policy will be made later this year when a review is completed.

Auditor General's suggestions introduced

Mr. Speaker, I have made two accounting changes suggested by the Auditor General to improve the reporting of government revenue and expenditure.

For the Medical Services Plan program, expenditures will be shown in total, rather than after the deduction of premium revenue. Similarly for contributions to school districts, expenditures will be shown in total rather than after the deduction of school purpose business property taxes. These changes more clearly report total government expenditure on health care and public school education.

All existing special funds will become special accounts within the General Fund, with the exception of the two special funds

I announced earlier. This underlines the importance of the two new funds and will not change the purpose of the accounts in any way.

Mr. Speaker, I would like to touch on a few highlights of the government's fiscal plan for 1988/89.

The base for this plan was set in 1987/88 when provincial government revenues were $551 million higher than expected.

I propose to use our additional revenue in three ways.

I will use it to fund net program overspending of $51 million. This is the result of additional health care requirements and the costs of the early retirement incentive plan.

I will contribute $450 million to the Budget Stabilization Fund.

The remaining $50 million will be used to reduce the 1987/88 General Fund deficit to $800 million, a decrease of over 30 per cent from 1986/87.

1987/88 General Fund deficit down over 30 per cent from 1986/87

Looking ahead I expect total revenue of the province to increase by 7.4 per cent and I expect General Fund revenue for 1988/89 to total $11.4 billion.

General Fund expenditure for 1988/89 will increase 6.4 per cent to $11.8 billion.

We have therefore reduced the General Fund deficit to $395 million, less than one-half of the revised deficit forecast for 1987/88.

Fiscal Plan

	Revised Forecast 1987/88	Budget 1988/89
	($ millions)	
Total Revenue	10,772	11,564
Less Transfer to the Budget Stabilization Fund	450	124
General Fund Revenue	10,322	11,440
General Fund Expenditure	11,122	11,835
General Fund Deficit	800	395

The government will borrow an estimated $191 million next year. The government's Crown corporations are expecting net borrowing of $216 million. Direct debt of the government and

its Crown corporations at March 31, 1989, will be 28 per cent of provincial Gross Domestic Product, the lowest level in six years.

The province and its Crown corporations traditionally borrow in national and international financial markets. We will consider broadening this program through the issuance of a British Columbia Savings Bond.

Conclusion

Mr. Speaker, I've discussed in detail how we will enhance social benefits for all British Columbians, increase the competitiveness of British Columbia business, and provide responsible management.

Mr. Speaker, I want once again to emphasize the importance — and our government's determination — to eliminate the deficit and reduce the debt so it does not burden our children.

At the same time, I want to remind everyone of the basic strength of the province's finances. Compared to the federal and other provincial governments, our performance is impressive. We continue to reduce our deficit, while maintaining a high level of government services.

Our planning horizon takes us to the brink of the next century. This budget builds the economic and fiscal foundation that will see us achieve our strategic plan.

1988 BUDGET

APPENDICES

Appendices

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APPENDIX A

FISCAL REVIEW AND OUTLOOK

Review of 1987/88

During 1987 British Columbia's economic growth was stronger than expected due to higher commodity prices and increased consumer confidence. As a result, capital investment, employment and retail sales were higher than forecast in last year's budget.

Revenue

The stronger economic performance, as well as a number of policy changes, caused provincial government revenue to be significantly above budget in 1987/88. The revised forecast for total revenue of $10,772 million is up $551 million or 5.4 per cent from the 1987/88 budget estimate.

Table A1 shows that four revenue sources — personal income tax, forests revenue, social service tax and corporation income tax — are responsible for the favourable revenue variance.

Table A1

Summary of Changes from Budget, 1987/88

	1987/88 Variance
	($ millions)
Revenue Changes	
Personal Income Tax	
—one time acceleration of payments from the federal government	120
—effect of improved economy	108
Corporation Income Tax	56
Social Service Tax	67
Forests Revenue	213
Other Revenue	(13)
TOTAL	551
Expenditure Changes	
Early Retirement Incentive Plan	68
Management of the Public Debt	15
Ministry of Health Overexpenditure	62
Net Underspending—Other Programs	(94)
Total Overexpenditure	51
Deficit Reduction	50
Transfer to Budget Stabilization Fund	450
TOTAL	551

Personal income tax is expected to be $228 million above budget. More than half of the increase ($120 million) reflects the acceleration of federal government remittances to the province under the federal-provincial tax collection agreement. This policy change was not anticipated when the 1987/88 provincial government revenue estimates were prepared. The remaining $108 million reflects better than expected economic performance.

Forests revenue is $213 million above budget. The depreciation of the Canadian dollar against Japanese and European currencies has increased the competitiveness of the lumber, pulp and paper industries in offshore markets. This factor, combined with continued strong demand for forest products in North America, resulted in higher than forecast shipments and prices for lumber, pulp and paper during 1987. This had a beneficial impact on provincial government revenue. In addition, the government's new forest stumpage system, which was introduced on October 1, 1987, resulted in higher revenue than under the former stumpage system and the lumber export tax.

Social service tax is expected to be $67 million above budget. This increase primarily reflects stronger than expected growth in retail sales and investment spending in 1987.

Corporation income tax is expected to be $56 million above budget. Higher than expected corporate profits account for this revenue variance.

The small decrease from budget for all other revenue is the result of variances in a number of revenue sources.

- Petroleum and natural gas revenue is expected to be $27 million higher than budget mainly due to higher bonus bids for natural gas drilling rights.
- Fuel tax revenue is expected to be $23 million above budget as a result of higher than expected fuel prices throughout the year.
- These positive variances were more than offset by lower than expected property purchase tax revenue, lower profits from the Liquor Distribution Branch, and lower fees and licence revenue as a result of late implementation of various 1987 budget measures.

Expenditure

General fund expenditure is now forecast at $11,122 million in 1987/88, up $51 million or 0.5 per cent from the budget estimate.

The Early Retirement Incentive Plan, which was introduced in October 1987, is expected to cost $68 million for the estimated 45 per cent of eligible employees taking advantage of the plan prior to March 31, 1988. The costs are reflected in the expenditure of the Ministry of Provincial Secretary and Government Services and in the Contingencies Vote.

The Ministry of Health is expected to be $62 million over budget, mainly due to higher than expected spending by the Medical Services Commission and hospital programs.

Management of the public debt will be $15 million above budget due to the government's assumption of $604 million of Crown corporation debt and debt-servicing obligations associated with the formation of the British Columbia Enterprise Corporation.

This overspending was partially offset by net underspending of $94 million for other programs. Lottery Fund spending for 1987/88 was $73 million under budget due to the decision to retire the balance of Expo 86 debt effective March 31, 1987. The budget estimate included a provision for Expo 86 debt repayment. The Ministry of Agriculture and Fisheries spent $21 million less than originally expected mainly due to low requirements for price support programs.

Use of Additional Revenue

The $551 million in increased revenue for 1987/88 was used to:

- offset General Fund overexpenditure of $51 million;
- transfer $450 million to the Budget Stabilization Fund (details are provided in Appendix G); and,
- reduce the General Fund deficit by $50 million to $800 million.

Table A2

Operating Transactions
General Fund

	Estimate 1987/88[1]	Revised Forecast 1987/88[1]	Estimate 1988/89
	($ millions)		
Total Revenue	10,221.4	10,772.0	11,564.0
Less Transfer to Budget Stabilization Fund	—	(450.0)	(124.0)
General Fund Revenue	10,221.4	10,322.0	11,440.0
General Fund Expenditure	11,071.4	11,122.0	11,835.0
General Fund Surplus (Deficit)	(850.0)	(800.0)	(395.0)

[1] Restated to conform to the *1988/89 Estimates*.

Table A3

Summary of Financial Transactions
General Fund and Special Funds

	Estimate 1987/88[1]	Revised Forecast 1987/88[1]	Estimate 1988/89
Financial Requirements:	($ millions)		
General Fund Revenue	10,221.4	10,322.0	11,440.0
General Fund Expenditure	11,071.4	11,122.0	11,835.0
General Fund Surplus (Deficit)	(850.0)	(800.0)	(395.0)
Transfer to Budget Stabilization Fund	—	450.0	124.0
Net Receipts (Disbursements) from Financing Transactions, Working Capital Transactions and Fiscal Agency Loans	22.0	(10.0)	43.0
Total Financial Requirements	(828.0)	(360.0)	(228.0)
Financial Sources:			
Net Direct Borrowing for Government Purposes	825.0	350.4	190.6
Decrease (Increase) in Cash and Temporary Investments	3.0	9.6	37.4
Total Financial Sources	828.0	360.0	228.0

[1] Restated to conform to the *1988/89 Estimates*.

1988/89 Overview

Total 1988/89 revenue is estimated at $11,564 million, an increase of 7.4 per cent from the revised forecast for 1987/88. This includes the expected revenue impact of $355 million resulting from the 1988 budget measures. Due to a $124 million transfer to the Budget Stabilization Fund, General Fund revenue will total $11,440 million.

General Fund expenditure is estimated at $11,835 million, an increase of 6.4 per cent from the 1987/88 revised forecast.

The deficit for 1988/89 is estimated at $395 million, a decrease of $405 million from the 1987/88 revised forecast, and the provincial government's financial requirements for 1988/89 are expected to be $228 million. These will be met through net borrowing of $191 million and by reductions in cash and temporary investments totalling $37 million.

1988/89 Revenue Details

Taxation revenue, the most important source of provincial government revenue, is expected to total $6,590 million in 1988/89, 7.2 per cent higher than the 1987/88 revised forecast. Personal income tax revenue is expected to decline slightly due to the effects of federal tax reform which reduces the provincial personal income tax base, but this will be partially offset by increases in personal income. Corporation income tax is estimated at $557 million, up 25.7 per cent, as a result of increases in corporate profits and the base-broadening impact of federal tax reform. The corporation income tax estimate includes the effects of the reduction in the general tax rate from 15 per cent to 14 per cent and the decrease in the provincial small business tax rate from 11 per cent to 9 per cent. These tax rate changes are expected to reduce revenue by $43 million in 1988/89.

Social service tax revenue is expected to increase by 13.5 per cent or $197 million from the 1987/88 revised forecast because of strong growth in consumer spending and business capital expenditure and measures introduced in the 1988 budget. The budget measures, primarily the increase in the social service tax rate on liquor from 6 per cent to 10 per cent and the removal of the social service tax exemption for draught beer, are expected to increase revenue by $96 million. Fuel tax revenue is estimated at $508 million, up $65 million or 14.7 per cent from 1987/88. Budget initiatives are expected to increase fuel tax revenue by $45 million. Business property tax for school purposes is expected to increase 8.7 per cent to $500 million because of budget measures which increase revenue by $46 million.

Natural resource revenue is estimated at $1,210 million, up 3.7 per cent or $43 million from 1987/88. Much of this increase is the result of a $37 million increase in water rentals revenue due to increased electricity export sales in 1987. Mineral revenue is expected to be $54 million, 8.0 per cent higher than in 1987/88, mainly due to a continuation of strong copper prices. Revenue measures introduced in the 1988 budget will reduce mining and mineral resource tax rates by $1 million in 1988/89 and $3 million in 1989/90.

Other revenue is expected to increase by $207 million to $1,208 million in 1988/89. Sales and services revenue is estimated at $839 million, up 24.1 per cent, mainly due to higher Medical Services Plan premiums announced in the 1988 budget. These premium increases are expected to increase revenue by $138 million. Licences and permits revenue will increase by 17.8 per cent to $238 million primarily as a result of the full year impact of motor vehicle licence fee increases introduced in 1987.

Table A4
Revenue by Source

	Estimate 1987/88	Revised Forecast 1987/88	Estimate 1988/89	Increase (Decrease)[1]
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	2,562.0	2,790.0	2,784.0	(0.2)
Corporation income	387.0	443.0	557.0	25.7
Social service	1,393.0	1,460.0	1,657.0	13.5
Fuel	420.0	443.0	508.0	14.7
Property — business (school purpose)[2]	446.9	460.0	500.0	8.7
Other	581.0	554.0	584.0	5.4
	5,789.9	6,150.0	6,590.0	7.2
Natural Resource Revenue:				
Petroleum and natural gas	179.0	206.0	205.0	(0.5)
Minerals	40.0	50.0	54.0	8.0
Forests	474.0	687.0	689.0	0.3
Water	212.0	213.0	250.0	17.4
Other	13.0	11.0	12.0	9.1
	918.0	1,167.0	1,210.0	3.7
Other Revenue:				
Sales and services[2]	688.0	676.0	839.0	24.1
Licences and permits[3]	211.5	202.0	238.0	17.8
Interest	62.0	53.0	53.0	—
Miscellaneous	81.0	70.0	78.0	11.4
	1,042.5	1,001.0	1,208.0	20.7
Contributions from Government Enterprises:				
Liquor Distribution Branch	432.0	417.0	425.0	1.9
Other	20.0	23.0	23.0	—
	452.0	440.0	448.0	1.8
Contributions from the Federal Government:				
Established Programs Financing	1,228.0	1,215.0	1,297.0	6.7
Canada Assistance Plan	629.0	631.0	623.0	(1.3)
Other	162.0	168.0	188.0	11.9
	2,019.0	2,014.0	2,108.0	4.7
Total Revenue	10,221.4	10,772.0	11,564.0	7.4
Less Transfer to Budget Stabilization Fund	—	(450.0)	(124.0)	—
TOTAL GENERAL FUND REVENUE	10,221.4	10,322.0	11,440.0	10.8

[1] Percentage change between the 1987/88 revised forecast and 1988/89 estimate.

[2] For comparative purposes, the estimate and revised forecast for 1987/88 has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included as revenue in 1988/89. Previously, these amounts were deducted from expenditure.

[3] Includes public gaming licence fees previously included in lottery revenue.

Contributions from the federal government are estimated at $2,108 million, an increase of 4.7 per cent from 1987/88. Established Programs Financing cash payments are expected to increase 6.7 per cent to $1,297 million. Canada Assistance Plan revenue will decrease 1.3 per cent to $623 million, reflecting a decline in the number of income assistance recipients.

The transfer to the Budget Stabilization Fund of $124 million in 1988/89 consists of interest earnings of $45 million on the Fund balance, and the expected lottery surplus of $79 million for 1988/89. After the transfer, General Fund revenue will total $11,440 million, up 10.8 per cent from the 1987/88 revised forecast.

1988/89 Expenditure Details

Expenditure for 1988/89 is estimated at $11,835 million, an increase of $764 million or 6.9 per cent from the 1987/88 estimates (See Table A5). The major expenditure increases are for health care and education.

Table A5

Expenditure by Ministry

	Estimate 1987/88[1]	Revised Forecast 1987/88[1]	Estimate 1988/89	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	14.2	14.2	16.6	16.9
Auditor General	4.5	4.4	5.2	18.2
Ombudsman	2.5	2.4	2.7	12.5
Office of the Premier	7.0	7.0	6.8	(2.9)
Advanced Education and Job Training	811.5	817.2	862.0	5.5
Agriculture and Fisheries	99.1	78.0	91.2	16.9
Attorney General	426.6	435.0	455.4	4.7
Economic Development	76.0	79.6	80.1	0.6
Education	1,822.8	1,837.0	1,972.5	7.4
Energy, Mines and Petroleum Resources	39.8	37.5	40.0	6.7
Environment and Parks	137.3	135.1	145.7	7.8
Finance and Corporate Relations	64.3	66.5	62.5	(6.0)
Forests and Lands	424.3	432.5	584.8	35.2
Health	3,553.3	3,615.4	3,915.0	8.3
Labour and Consumer Services	48.1	50.8	72.8	43.3
Municipal Affairs	417.8	418.1	439.8	5.2
Provincial Secretary and Government Services	45.7	78.3	62.0	(20.8)
Social Services and Housing	1,384.5	1,381.9	1,393.7	0.9
Tourism, Recreation and Culture	54.5	54.0	49.4	(8.5)
Transportation and Highways	866.1	852.2	731.3	(14.2)
Other Appropriations:				
Management of the Public Debt	530.2	545.0	605.0	11.0
Contingencies	50.0	65.0	50.0	(23.1)
New Programs	—	—	90.0	—
Crown Land	22.0	18.8	20.0	6.4
Lottery	169.3	96.1	80.5	(16.2)
TOTAL GENERAL FUND EXPENDITURE	11,071.4	11,122.0	11,835.0	6.4

[1] For comparative purposes, the 1987/88 estimate and the 1987/88 revised forecast have been restated to be consistent with the 1988/89 estimate.

[2] Percentage change between the 1987/88 revised forecast and 1988/89 estimate.

Ministry of Health expenditure will account for one-third of government spending for 1988/89. It is estimated at $3,915 million, up $362 million or 10.2 per cent from the 1987/88 estimates. This is the result of:

- additional funding of $174 million for hospitals;
- additional funding of $114 million for the Medical Services Commission;
- additional funding of $34 million for continuing care services; and,
- additional funding of $18 million for Pharmacare.

Spending by the Ministries of Education and Advanced Education and Job Training will increase by $200 million or 7.6 per cent from the 1987/88 estimates due mainly to:

- increased contributions to school districts of $114 million;
- increased homeowner grants of $18 million;
- additional funding of $19 million for universities, colleges and institutes; and,
- additional funding of $32 million for student financial aid.

Expenditure by the Ministry of Forests and Lands is budgeted to increase by $161 million or 37.8 per cent from the 1987/88 estimates. Most of this increase is due to higher expenditure for silviculture. Other significant funding increases include forest fire suppression and increased Small Business Forest Enterprise Account expenditure.

Expenditure by the Ministry of Labour and Consumer Services will increase an estimated $25 million or 51.4 per cent from the 1987/88 estimates. The increase reflects an additional $23 million for the prevention and treatment of substance abuse.

Expenditure by the Ministry of Transportation and Highways will decrease by $135 million or 15.6 per cent from the 1987/88 estimates, due to reduced expenditure for highway capital construction.

A separate New Programs vote of $90 million has been included in the 1988 Budget. This vote will be used to fund new initiatives in health care, social programs, science and technology and small business development.

Total expenditure is expected to increase by $713 million or 6.4 per cent from the 1987/88 revised forecast.

1988/89 Financing Plan

Net borrowing for government purposes is expected to be $191 million in 1988/89. Gross borrowing of $420 million will be partially offset by repayment provisions totalling $229 million including sinking fund contributions, sinking fund earnings and debt maturities.

Crown corporation net borrowing is estimated at $216 million. Gross borrowing of $1,200 million will be almost entirely offset by repayment provisions of $984 million. (See Table A6)

The provincial government is currently considering a British Columbia savings bond issue, in addition to its traditional sources of funds, to meet its borrowing requirements. Details of the financing plan are provided in Appendix H.

Table A6

Financing Plan Summary, 1988/89

	Gross Borrowing	Repayment Provisions[3]	Net Borrowing
	($ millions)		
BORROWING REQUIREMENTS:[1]			
Gross Borrowing – Government Purpose[2]	419.6	229.0	190.6
Crown Corporation Gross Borrowing			
Commercial	630.0	760.1	(130.1)
Economic Development	59.0	25.7	33.3
Social and Government Services	429.7	195.9	233.8
Other	81.0	2.5	78.5
Total Crown Corporation Borrowing	1,199.7	984.2	215.5
TOTAL BORROWING REQUIREMENTS	1,619.3	1,213.2	406.1

[1] Fiscal agency debt of the government which has been reloaned to Crown corporations is included with Crown corporation debt.
[2] Gross new long-term borrowing plus net change in short-term debt.
[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

End of Year Position

At March 31, 1989, it is estimated that the financial assets of the government will total $5,696 million while financial liabilities will total $10,030 million. As a result, the excess of financial liabilities over financial assets, or net deficiency, at March 31, 1989, is estimated at $4,334 million. This consists of a General Fund deficiency of $4,908 million and net equity of the Budget Stabilization Fund of $574 million.

Government operating debt is expected to total $5,343 million, an increase of 3.7 per cent from March 31, 1988. Crown corporation debt is expected to total $12,735 million, an increase of 1.7 per cent from March 31, 1988.

Debt of the provincial government and its Crown corporations including fiscal agency and guaranteed debt, is expected to total $18.1 billion, or 27.8 per cent of gross domestic product (GDP), at March 31, 1989. This is the lowest level of debt in relation to GDP since March 31, 1983.

Trust funds under administration do not form part of the combined General Fund and Special Funds. They are expected to increase to $15.6 billion by March 31, 1989. Public sector pension funds, sinking funds and the reserve funds of the Workers' Compensation Board are the main components.

Table A7

Balance Sheet
General Fund and Special Funds

As at March 31,	Estimate 1988	Revised Forecast 1988	Estimate 1989
		($ millions)	
Assets:			
Cash and investments	940.3	1,498.8	1,485.7
Accounts receivable	757.0	705.5	763.5
Inventories	136.0	99.3	9.0
Fiscal Agency loans	3,466.4	2,597.0	3,315.8
Other assets	130.2	139.6	122.1
Total Assets	5,429.9	5,040.2	5,696.1
Liabilities and Net Equity:			
Liabilities			
Accounts payable, accrued liabilities and amounts due to Crown corporations and agencies	1,156.8	1,118.9	1,115.3
Deferred revenue	217.3	234.5	255.6
Direct debt issued for Government purposes	5,162.1	5,152.3	5,342.9
Direct debt to finance Fiscal Agency loans	3,466.4	2,597.0	3,315.8
	10,002.6	9,102.7	10,029.6
Net Equity (Deficiency)			
General Fund	(4,572.7)	(4,512.5)	(4,907.5)
Budget Stabilization Fund	—	450.0	574.0
	(4,572.7)	(4,062.5)	(4,333.5)
Total Liabilities and Net Equity	5,429.9	5,040.2	5,696.1
Guaranteed Debt	10,775.5	9,922.0	9,418.7
Trust Funds Under Administration	16,350.0	15,100.0	15,600.0

APPENDIX B

ECONOMIC OUTLOOK FOR BRITISH COLUMBIA

Overview of 1987

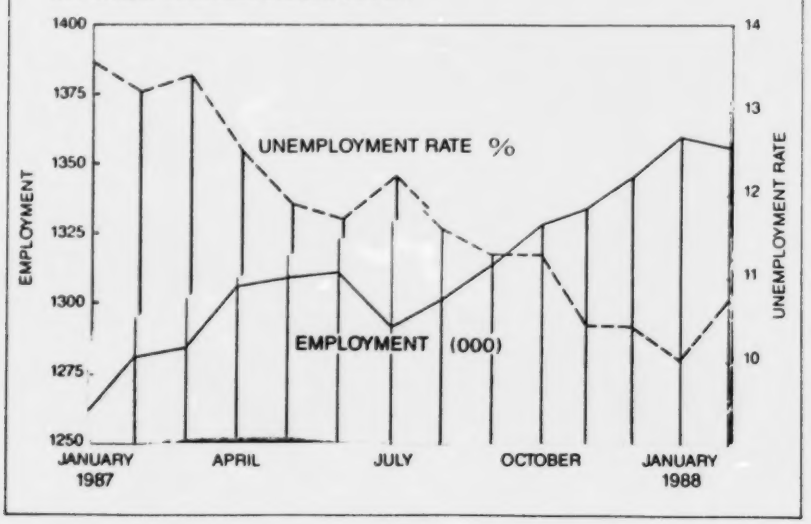
The British Columbia economy grew by an estimated 4.0 per cent in 1987. Contrary to the expectations of most forecasters, there was no slowdown following Expo 86. In fact, with the exception of tourism indicators, most data show that the economy was stronger in 1987 than in 1986.

Because of the province's extensive linkages to the international economy, external factors played a significant role in 1987's strong performance. The depreciation of the Canadian dollar against the European and Japanese currencies made British Columbia's exports more competitive abroad. In addition, prices for many of British Columbia's natural resource commodities were much stronger than had been anticipated.

These favorable external developments created a ripple effect throughout the economy. Strong export demand and buoyant commodity prices led to increases in corporate profits. Although interest rates rose steadily through 1987 until the large stock market decline in October, businesses were not deterred from investing their profits in new capital equipment. These developments led to higher employment and growth in wage and salary income, consumer spending and housing construction. Because the resource sector led the expansion in 1987, the outlying regions of the province grew faster than the major metropolitan areas.

The strength of the provincial economy was evident in the labour market. Despite rapid Expo-induced employment growth of 3.7 per cent in 1986, employment increased a further 2.5 per cent in 1987. The average unemployment rate declined from 12.6 per cent in 1986 to 12 per cent last year. However, between January 1987 and January 1988, over 90,000 jobs were created and the seasonally-adjusted unemployment rate fell from 13.6 per cent to 10.1 percent.

The British Columbia Labour Market



Reflecting growth in employment, aggregate wages and salaries increased 5.6 per cent in 1987. Negotiated wage settlements averaged 2.1 per cent in 1987. Days lost due to work stoppages were only one-fifth as high as in 1986, when a lengthy dispute occurred in the forest industries. The sharp drop in days lost also reflects the relatively light bargaining calendar in 1987.

The consumer sector in British Columbia also performed strongly in 1987. Retail spending rose 9.8 per cent, higher than the 8.8 per cent increase in 1986. Because of the large amount of spending by visitors to Expo 86 in 1986, this increase in 1987 suggests that British Columbia residents increased their spending significantly last year.

Housing starts totalled 28,944 in 1987, 39.9 per cent higher than in 1986. Although most housing starts in British Columbia occur in the Lower Mainland, there were large percentage increases on Vancouver Island and in other regions of the province. The surge in retail sales in 1987 partially reflected the increase in housing starts as new home purchasers bought new furniture and appliances.

The value of British Columbia manufacturing shipments increased 11.4 per cent in 1987, compared to a 4.7 per cent increase for Canada as a whole. Forest products were responsible for most of this increase. Shipments of wood products increased 18.4 per cent, reflecting a resumption of production following the lengthy strike during the second half of 1986. Lumber shipments to the United States have remained high despite declining housing starts because of the surge in lumber demand created by home repairs and renovations. In addition, lumber shipments to Japan have increased significantly. The Canadian lumber export tax that was in place until November 30, 1987 appears to have had little effect on exports to the United States.

Pulp and paper shipments were also strong, increasing 25 per cent in 1987. The pulp and paper industry was operating at full capacity for most of the year.

Exports of British Columbia products increased significantly in 1987 as a result of the strong export performance of the forest product industries. The value of exports originating in the province was up an estimated 19.5 per cent during 1987.

Prices for many of British Columbia's exports rose significantly due to strong foreign demand. As in 1986, forest products recorded the largest increases. Pulp and newsprint prices rose steadily through the year. Average lumber prices in 1987 were 8.2 per cent above 1986 levels, although prices slipped during the latter half of the year along with housing starts in the United States. With the exception of zinc and molybdenum, prices for British Columbia's important metals were also higher in 1987.

In contrast to the general rise in commodity prices, energy prices remained relatively low in 1987. Oil prices dropped to the $16 (U.S.)/barrel range in December, well below their trading range of $19-$20 during most of 1987. Further weakness has been evident in recent weeks.

However, British Columbia export volumes of natural gas and electricity increased substantially due to the price competitiveness of Canadian natural gas in the California market and low water reservoir levels at hydro-electric generating facilities in Washington State. Coal exports also increased, reflecting higher steel production in Japan than had been expected. However, prices remained weak.

The increased demand for British Columbia products and rising prices created a positive investment climate. New capital investment totalled $11.2 billion in 1987, an increase of 17.4 per cent from 1986. Two sectors were responsible for 80 per cent of the increase: housing (53 per cent) and forest products (27 per cent).

Inflation remained low during 1987, as the Vancouver and Victoria Consumer Price Indexes increased 3.1 per cent and 2.5 per cent, respectively. Victoria had the lowest increase of any major Canadian city.

The External Environment

Trade and fiscal imbalances were major sources of uncertainty in the world economy during 1987. The United States' fiscal deficit declined, but its large trade deficit continued to grow, sparking fears that it would erect protectionist barriers against its trade partners. Widespread protectionism was more rhetoric than reality however, as the secretariat of the General Agreement on Tariffs and Trade reported that the volume of world trade expanded 4.0 per cent in 1987, following the 3.5 per cent increase in 1986.

The United States economy grew 2.9 per cent in 1987, in line with most expectations. However, the pattern of growth revealed some basic weaknesses: fixed investment grew only 0.6 per cent and personal consumption expenditure growth slowed to 1.9 per cent. An increase in net exports and a large accumulation of inventories were the major factors keeping growth above two per cent.

In 1988, the U.S. economy is expected to grow by 2.2 per cent. A major concern has been the large inventory accumulation late in 1987 which could cause slower output growth in the first half of 1988. Growth in the two per cent range is forecast in 1989. Slow growth in both years reflects the rising probability of a slowdown as the current economic expansion ages and the view that domestic consumption will have to grow more slowly in order for the United States to continue to reduce its large and unsustainable trade deficit. A contrary view is that the lower-valued dollar will quickly eliminate the trade deficit and spur an export-oriented investment boom that will offset a weaker consumer sector.

Housing starts in the United States are expected to total 1.50 million in 1988 and 1.55 million in 1989. As noted earlier, the growing importance of offshore sales and the home renovation market has reduced the British Columbia lumber industry's dependence on the new housing market in the United States.

Japan's economy grew by 4.0 per cent in 1987, far above expectations, and the fastest growth rate of the seven major industrial nations. A boom in domestic consumer spending, housing and business investment offset the negative effects of an appreciating yen on exports. In 1988, the Japanese economy is expected to grow by 3.5 per cent.

The West German economy grew by only 1.7 per cent in 1987 and growth in the 1.0 to 1.5 per cent range is expected in 1988. The slowdown reflects the impact of the rising value of the deutschemark on export volumes and capital investment and West Germany's reluctance to adopt more expansionary fiscal policies.

The Canadian economy posted the second fastest growth rate among the major industrialized countries, expanding at a 3.9 per cent rate in 1987. Major sources of strength in the economy were the consumer sector, the housing markets in central Canada and British Columbia and business investment.

Real net exports declined due to the continuing strength of the consumer sector which caused spending on imports to rise faster than exports. Also contributing to the decline in net exports was the strengthening Canadian dollar against the U.S. currency which made travel south of the border more attractive. Foreign travel expenditures in Canada also dropped following the end of Expo 86.

The Canadian economy is expected to grow by 2.7 per cent in 1988 and by 2.0 per cent in 1989. The reasons for the mild slowdown in projected growth are a decline in housing starts and slower growth in consumer spending. As well, slower growth in the United States is likely to constrain Canadian export growth in the short term.

British Columbia Outlook

Economic growth in British Columbia during 1988 will be solid, but less spectacular than in 1987. The slowdown in growth to 2.7 per cent in 1988 reflects slower growth in the United States, more moderate expansion in key industries such as forest products and a decline in housing starts.

A key consideration in the 1988 British Columbia forecast is the physical limits on output. In fast-growing areas such as pulp and paper, significant increases in output cannot occur until capacity expansions come on stream in 1989 and beyond. Another aspect of 1987 growth which may not continue into 1988 is the rapid increase in most commodity prices and corporate profits. Prices and profits are expected to remain firm but are unlikely to increase as much as in 1987.

Employment in British Columbia grew steadily during 1987. Because of this, employment levels in January and February of 1988 were already 3.8 percent above the 1987 average and average employment in 1988 is expected to be at least 4.5 per cent higher than last year.

As a result of a faster-growing economy, in-migration from other provinces and greater labour force participation will cause the labour force to grow by 2.2 per cent. Combined with the 4.5 per cent increase in employment, this will lower the British Columbia unemployment rate from 12.0 per cent in 1987 to 10.0 per cent in 1988.

Generally improved labour market conditions should result in stronger growth in aggregate wages and salaries, personal income and average weekly earnings than occurred in 1987.

Although personal income growth will provide continued support to consumer spending in the province, a decline in housing starts, the satisfaction of pent-up demand for major consumer durable goods and an anticipated increase in the savings rate is expected to reduce retail sales growth from the rapid 9.8 per cent pace of 1987 to 7.0 per cent in 1988.

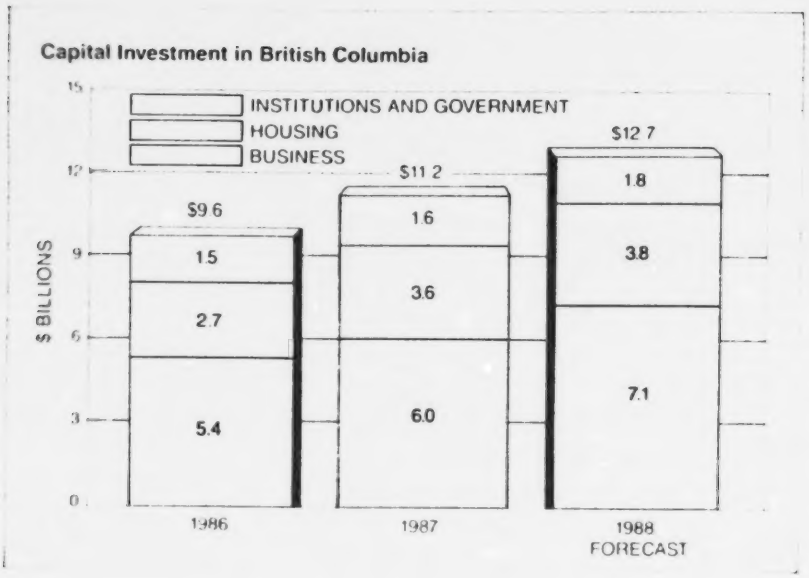
Having surged to 29,000 units in 1987, housing starts in British Columbia are expected to decline to 25,500 units in 1988. In the Vancouver area, there has been an over-building of condominiums and, although vacancy rates have dropped in many of British Columbia's cities, rents are not yet high enough to generate significant amounts of new apartment construction. This situation could change if growth in the provincial economy is higher than expected and larger numbers of people from other provinces migrate to British Columbia.

Capital investment should remain strong in 1988. In the wake of the large stock market decline in October, most firms re-evaluated their capital spending plans. With a few exceptions, this does not appear to have had a major impact on British Columbia companies' assessment of investment prospects.

Total capital investment is expected to increase 13 per cent to $12.7 billion in 1988. Business investment is forecast to rise to $7.1 billion, an 18.8 per cent increase. This investment forecast is slightly more conservative than is suggested by Statistics Canada's recent survey of public and private investment intentions. This survey reported that planned capital spending in British Columbia was 15.4 per cent above the 1987 level.

Inflation in British Columbia is expected to increase slightly in 1988, but will still remain below the Canadian average. The Vancouver Consumer Price Index is forecast to increase 3.7 per cent in 1988, as compared to 3.1 per cent in 1987. Factors such as rising rental accommodation costs are likely to contribute to the increase in the Consumer Price Index.

On an industry basis in 1988, the service sector is expected to grow faster than in 1987 when there was a post-Expo decline in overall tourism spending. The goods-producing industries may grow slightly slower than in 1987 when the forest product industries grew very rapidly. More moderate growth in the forest products sector should be offset by faster growth in mining and secondary manufacturing.



Risks to the Forecast

The economic forecast indicates that moderate growth in British Columbia will continue through 1988 and 1989. However, growth could be stronger than forecast if interest rates fall and the United States manages to shift the focus of its growth from the domestic consumer to the export sector as rapidly as Japan has done the reverse. This would create an even more positive environment for commodity prices and capital investment than currently exists.

As the turmoil in world financial markets in October demonstrated, not all of the forecast risks are on the upside. Although growth is expected to continue through 1988, many forecasters expect a mild slowdown or recession to begin in the United States before the end of 1989.

In addition, large world trade imbalances remain and, combined with the United States' budget deficit and the less-developed countries' debt problems, continue to cast a shadow over the world economy.

Conclusion

On balance, the British Columbia economy is expected to grow at a healthy rate in 1988. The risks of a slowdown in the North American economy in 1988 appear small but are expected to increase through 1989. British Columbia is likely to be less affected by a slowdown than other areas of Canada that have recently experienced growth that their economies cannot sustain in the long run.

Table B1

British Columbia Economic Indicators

	1986	1987	1988[f]	1989[f]
Gross Domestic Product ($ million)	56,496	60,750[e]	64,940	68,970
(percentage change)	4.2	7.5	6.9	6.2
Real Gross Domestic Product (millions of constant 1981 dollars)	47,396[e]	49,292[e]	50,622	51,634
(percentage change)	1.0	4.0	2.7	2.0
Capital Investment ($ million)	9,576	11,238	12,700	13,650
(percentage change)	− 6.0	17.4	13.0	7.5
Housing Starts (units)	20,687	28,944	25,500	26,000
(percentage change)	15.1	39.9	− 11.9	2.0
Retail Sales ($ million)	15,567	17,087	18,285	19,510
(percentage change)	8.8	9.8	7.0	6.7
Vancouver Consumer Price Index (1981 = 100)	129.3	133.3	138.2	143.9
(percentage change)	3.3	3.1	3.7	4.1
Population 15 and Over (thousands)	2,239	2,266	2,295	2,325
(percentage change)	0.6	1.2	1.3	1.3
Labour Force (thousands)	1,457	1,484	1,517	1,542
(percentage change)	1.8	1.9	2.2	1.7
Employment (thousands)	1,274	1,306	1,365	1,395
(percentage change)	3.7	2.5	4.5	2.2
Unemployment Rate (per cent)	12.6	12.0	10.0	9.5
Other Forecasts of Real Gross Domestic Product		percentage change		
Conference Board of Canada (November 1987)		4.3	2.2	2.6
Royal Bank of Canada (December 1987)		3.5	2.8	2.5
Bank of Nova Scotia (January 1988)		3.4	2.5	n.a.
British Columbia Central Credit Union (October 1987)		3.0	2.8	n.a.

[e] Ministry of Finance and Corporate Relations estimate.
[f] forecast.

APPENDIX C

REVENUE MEASURES

C1: SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1988/89	1989/90
		($ millions)	
Assessment Act			
Previously announced changes to the definition of *bona fide* farmer deferred	July 1, 1988	−2	−8
Education (Interim) Finance Act			
Tax rates on non-residential property increased	January 1, 1988	+46	+46
Horse Racing Tax Act			
British Columbia Racing Commission share of the pari mutuel tax rate increased from 3.5 per cent to 4.0 per cent	March 25, 1988	−1	−1
Hotel Room Tax Act			
Exemption level for lower-priced accommodation increased from $10 per day to $20 per day	March 25, 1988	*	*
Income Tax Act			
Tax rate on income earned by small business corporations reduced from 11 per cent to 9 per cent	July 1, 1988	−18	−30
Insurance Premium Tax Act			
Tax rate on vehicle insurance premiums increased from 3 per cent to 4 per cent	April 1, 1988	+6	+9
Medical Service Act			
Medical Services Plan premiums increased	May 1, 1988	+138	+150
Mineral Resource Tax Act			
Tax rate on income from metal mining reduced from 17.5 per cent to 15 per cent	July 1, 1988	−1	−2
Mining Tax Act			
Tax rate on income from coal mining and the extraction of structural minerals reduced from 15 per cent to 12.5 per cent	July 1, 1988	*	−1
Motor Fuel Tax Act			
Tax rate on highway fuels increased from 20 per cent to 22.5 per cent	April 1, 1988	+45	+45

C1: SUMMARY OF REVENUE MEASURES *(Continued)*

	Effective Date	Revenue Effects 1988/89	1989/90
		($ millions)	
Social Service Tax Act			
Exemption for pesticides eliminated	March 25, 1988	+1	+1
Exemption for draught beer eliminated and a tax rate of 10 per cent applied	April 1, 1988	+27	+28
Tax rate on all other liquor increased from 6 per cent to 10 per cent	April 1, 1988	+68	+70
Taxation (Rural Area) Act			
Tax rates increased	January 1, 1989	+2	+8
Tobacco Tax Act			
Tax on cigarettes increased by 9¢ per package of 25 cigarettes	March 25, 1988	+20	+17
Tourist Accommodation (Assessment Relief) Act			
Deduction from assessed value provided to tourist accommodation facilities for property tax purposes	January 1, 1989	−1	−4
Other Revenue			
Liquor purchase assessment fee eliminated	March 31, 1988	−15	−15
Various fees and licences increased	Various	+40	+40
Total		**+355**	**+353**

* Minimal revenue effect

C1: REVENUE MEASURES: SUPPLEMENTARY INFORMATION

Assessment Act

The farm revenue threshold in the definition of bona fide farmer, which is used to qualify farmers for preferential property tax, social service tax and motor fuel tax treatment, is currently set at $1,600 per year. A change to this threshold, announced in the 1987 budget, has been deferred.

Education (Interim) Finance Act

Effective January 1, 1988, provincial school tax rates on non-residential property will be increased.

In most school districts the tax rates on the major industry, light industry, and business/other property classes will increase from $12.77 per $1,000 of assessed value to $14.60 per $1,000 of assessed value. These increases are consistent with the policy of maintaining a 2 to 1 relationship between non-residential and residential tax rates.

Tax rates on the farm and recreational property/non-profit organization property classes will, in most school districts, increase from $6.34 per $1,000 to $7.30 per $1,000 of assessed value.

Tax rates on utility property will remain unchanged.

Tax rates on private forest land will be changed to implement a 1986 budget measure designed to encourage reforestation on private lands.

Horse Racing Tax Act

A 7.0 per cent pari mutuel tax is levied on horse racing wagers in British Columbia. Revenue from this tax is shared with the British Columbia Racing Commission.

Effective March 25, 1988, the Racing Commission's share of the 7 per cent tax rate will be increased from 3.5 per cent to 4.0 per cent and the provincial share will be reduced from 3.5 per cent to 3.0 per cent. Funds from the increase in the Commission's share are to be used exclusively for the analysis, establishment or improvement of horse racing facilities in the province.

Hotel Room Tax Act

No hotel room tax is currently payable on lodgings purchased for $10 or less per day or for $70 or less per week. These exemption levels were established in 1981.

Effective March 25, 1988, the exemption levels will be increased to $20 or less per day and $140 or less per week.

Income Tax Act

A key principle of tax equity underlying the Canadian income tax system is that income earned in a small business and paid as dividends to shareholders bears the same tax burden as income earned as wages or salaries.

As a result of federal income tax reform initiatives, income earned in a small business corporation in British Columbia and paid as dividends to shareholders would bear higher taxes than income earned as wages or salaries.

In order to adhere to the principle of tax equity, and to provide an incentive to small businesses, effective July 1, 1988, the British Columbia rate of tax on the first $200,000 of active business income of Canadian controlled private corporations will be reduced from 11 per cent to 9 per cent.

Insurance Premium Tax Act

Effective April 1, 1988, vehicle insurance premiums will be taxed at 4 per cent under the *Insurance Premium Tax Act* in order to achieve the same level of taxation that is applied to other property insurance premiums.

Medical Service Act

Effective May 1, 1988, Medical Services Plan premiums will be increased to $58 per month for a family of three or more, $52 for a family of two, and $29 for single subscribers. Currently, monthly rates are $42, $37, and $20 respectively.

To offset the impact of these increases on lower income subscribers, the premium assistance program will be enhanced. Currently, premium assistance for those with taxable incomes between $2,500 and $3,500 per year is equal to 55 per cent of premiums. This assistance will be extended to those with taxable incomes between $2,500 and $6,500 (calculated on a pre-tax reform basis). Assistance equal to 95 per cent of premiums will continue to be offered to subscribers with taxable incomes of less than $2,500 per year.

Mineral Resource Tax Act

The mineral resource tax applies to income earned from the extraction of metallic minerals in British Columbia. The definition of taxable income is similar to that used for income tax purposes. However, there are certain changes from the income tax definition to ensure that the tax applies to income earned from the extraction, rather than processing, of metallic ores from each individual mine.

Effective July 1, 1988, the mineral resource tax rate will be reduced from 17.5 per cent to 15 per cent of taxable income. This will improve the competitiveness of the tax structure on metal mining in British Columbia.

Mining Tax Act

The mining tax imposes a tax of 15 per cent on income earned from the extraction of coal and structural minerals in British Columbia. The definition of taxable income is similar to that used for income tax purposes.

In order to improve the competitiveness of British Columbia's mining tax structure, the mining tax rate will be reduced from 15 per cent to 12.5 per cent, effective July 1, 1988.

Motor Fuel Tax Act

Effective April 1, 1988, the 20 per cent ad valorem tax rate on unleaded gasoline will be increased to 22.5 per cent. The tax rate will continue to be adjusted quarterly to reflect changes in the Vancouver consumer price index for gasoline. The 22.5 per cent rate will be reflected in the April 1, 1988 indexing adjustment.

The tax rates on leaded gasoline and diesel fuel will be affected by this change. They will continue to be 2¢ per litre and 0.44¢ per litre, respectively, higher than the tax rate on unleaded gasoline.

Social Service Tax Act

Exemption for Pesticides Eliminated

Effective March 25, 1988, social service tax will be payable on the purchase of pesticides, including insecticides and fungicides registered under the *Pest Control Products Act* (Canada), and on weed control chemicals.

Exemption for Draught Beer Eliminated

Effective April 1, 1988, the exemption for draught beer will be eliminated. Retail purchases of draught beer in licensed establishments will be taxable at the new tax rate on liquor.

Increase in Tax Rate on Liquor

Effective April 1, 1988, the social service tax rate on liquor will be increased from 6 per cent to 10 per cent. The new tax rate will apply to liquor purchases in retail outlets and also to purchases of alcoholic beverages in bars and restaurants.

Taxation (Rural Area) Act

Effective January 1, 1989, provincial rural tax rates will be increased.

Rates on the residential and recreational property/non-profit organization property classes will be increased from $1.70 per $1,000 of assessed value to $2.30 per $1,000 of assessed value.

Tax rates on the major industry, light industry and business/other property classes will be increased to $4.60 per $1,000 of assessed value to maintain a 2:1 ratio between these tax rates and the new residential tax rate.

The tax rate on utility property will remain unchanged at $4.60 per $1,000 of assessed value, as will the $0.50 farm tax rate.

Tax rates on private forest land will be changed to implement a 1986 budget measure designed to encourage reforestation on private lands.

Tobacco Tax Act

Effective March 25, 1988, the tax rate on cigarettes will increase from $1.04 to $1.13 per package of 25 cigarettes. The tax rate will continue to be adjusted semi-annually, on March 1 and September 1, to reflect changes in the Vancouver consumer price index for tobacco.

Tourist Accommodation (Assessment Relief) Act

Effective January 1, 1989, tourist accommodation facilities will be provided with a deduction for property tax purposes equal to 50 per cent of their assessed value, up to a maximum deduction of $150,000 from assessed value.

Approximately 2,800 properties, including hotels, motels, recreational trailer parks, campgrounds and resorts will be eligible for this deduction. The effect of the change will be most significant for accommodation properties with assessed values of less than $300,000 and will diminish in significance at higher assessed values.

Other Revenue

Liquor Purchase Assessment Fee Paid by Licensees Eliminated

Effective March 31, 1988, the 5 per cent liquor purchase assessment fee charged under the *Liquor Control and Licensing Act* will be eliminated.

Other Fees and Licences Increased

A number of fees and licences will be increased during the fiscal year. These include court services and land registry fees.

C2: SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Home Owner Grant Act	
Home owner grant eligibility in rural areas changed to more closely parallel eligibility in municipalities	January 1, 1988
Land Tax Deferment Act	
Land tax deferment program extended to owners of mobile homes.	April 1, 1988
Provincial-Municipal Partnership (Taxation Measures) Act	
Eligibility for tax benefits for previously vacant industrial buildings broadened	March 25, 1988
Social Service Tax Act	
Definition of mobile home broadened	March 25, 1988
Exemption for used clothing and used footwear restricted to sales of less than $100 per item	March 25, 1988
Definition of sale amended to clarify that transfers of property which are part of a corporate wind-up are taxable	April 1, 1988
Taxation (Rural Area) Act	
Assessment changes which are made after the authentication of the assessment roll but prior to the issuance of tax notices to be reflected in tax calculation	March 25, 1988
Tobacco Tax Act	
Maximum tax per cigar established	March 25, 1988

C2: ADMINISTRATIVE MEASURES: SUPPLEMENTARY INFORMATION

Home Owner Grant Act

At present, lessees of private property in non-municipal areas can qualify for home owner grants under certain conditions. Effective January 1, 1988, home owner grant eligibility in non-municipal areas will be restricted to property owners. This more closely parallels the eligibility requirement in municipal areas.

Land Tax Deferment Act

Owners of eligible property who are 65 years of age or over can defer property taxes. Effective April 1, 1988, the definition of eligible property will be extended to include mobile homes.

Provincial-Municipal Partnership (Taxation Measures) Act

Effective March 25, 1988, the definition of property eligible for a property tax reduction under the Provincial-Municipal Partnership program will be broadened to include previously vacant industrial buildings which become owner-occupied.

Social Service Tax Act

Definition of Mobile Homes

The *Social Service Tax Act* provides an exemption for used mobile homes. The regulations to the Act define a mobile home in accordance with Canadian Standards Association (CSA)

standards. Effective March 25, 1988, the definition of used mobile homes eligible for the exemption will be broadened to include mobile homes which may not meet the CSA standard.

Exemption For Used Clothing

The current exemption for used clothing and used footwear has no restrictions on the value of the clothing or footwear. Effective March 25, 1988, the exemption will be limited to sales of used clothing and footwear where the sale price is less than $100 per item.

Taxation of Corporate Wind-ups

The definition of sale in the Act will be amended to clarify that transfers of tangible personal property which are part of winding up, dissolution or liquidation of a corporation, are subject to social service tax. This amendment will be effective April 1, 1988.

Taxation (Rural Area) Act

Taxes in non-municipal areas are established on the basis of information contained in the authenticated assessment roll and do not reflect certain changes to assessed values made between the authentication date and the issuing of tax notices. Such changes will now be reflected in the tax calculation.

Tobacco Tax Act

Effective March 25, 1988, the tax per cigar will be limited to a maximum of $2.50.

C3: EFFECT OF FEDERAL INCOME TAX REFORM MEASURES ON PROVINCIAL REVENUE

	Revenue Effects 1988/89	1989/90
	($ millions)	
Reduction in provincial personal income tax	−140	−148
Increase in provincial corporate income tax	+33	+66
Increase in Established Programs Financing cash transfers	+36	+36
Total	−71	−46

NOTES

1. Under the federal-provincial Tax Collection Agreement, the province levies personal income taxes as a percentage of federal personal income tax. Federal tax reform initiatives, which include lower federal personal income tax rates, will reduce federal taxes. This reduction will, in turn, lower British Columbia personal income tax revenues.
2. Federal tax reform initiatives, which include broadening of the corporate tax base, will increase corporate taxable income. As British Columbia levies corporate tax as a percentage of corporate taxable income, the federal initiatives have the effect of raising British Columbia corporate income tax revenues.
3. The federal government provides support to the provinces for health care and post-secondary education under the Established Programs Financing (EPF) transfer. The total amount of the support is determined by a formula linked to the growth in Canadian Gross National Product. The federal support has two components, cash transfers and the notional value of certain income tax revenues transferred to the province. Since tax reform will reduce the notional value of the income tax component, the cash transfer component will be increased.
4. The federal government projects that by 1991/92 British Columbia will gain revenue as a result of income tax reform. To help offset the short-term revenue loss, the federal government has accelerated the payment of provincial personal income tax collected for the provinces under the Tax Collection Agreement. British Columbia will receive $61 million in additional payments in 1988/89. These additional payments will reduce the lag between the time Revenue Canada collects income tax revenue from taxpayers and the time the provincial share of that revenue is paid to the provinces.

APPENDIX D

WAGE SETTLEMENTS IN BRITISH COLUMBIA

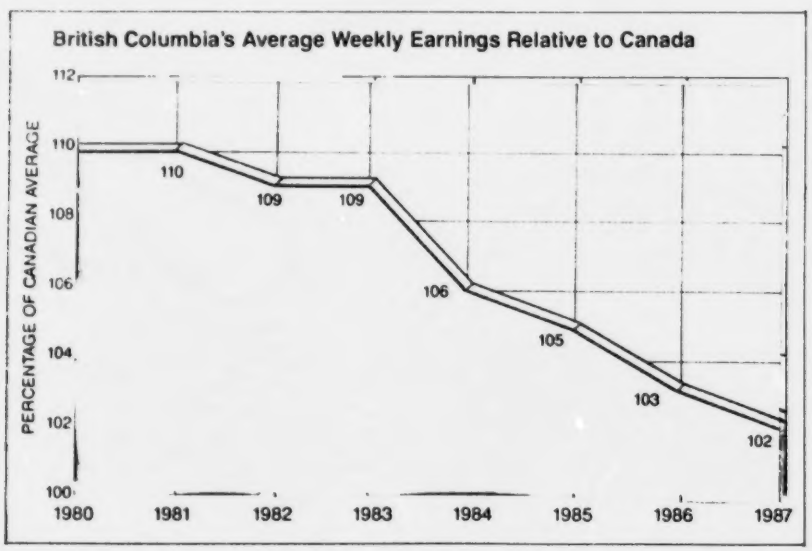
Developments in the 1980s

External influences have a major effect on economic activity in British Columbia. The province is heavily dependent on export markets and firms must remain competitive in a world context. Because British Columbia's export industries have little control over the prices they receive for their products, they must pay close attention to their cost structure in order to ensure competitiveness.

In the early 1980s, British Columbia's cost and wage structure was out of line with its competitors. Strong commodity prices and high inflation expectations led to double-digit wage increases. The subsequent recession led to a moderation in wage demands, but the wage adjustment occurred slowly. Key export markets for British Columbia remained weak following the recession, resulting in continuing high unemployment levels.

Since the recession, British Columbia's wage settlements have generally been below those in other regions of the country. From 1984 to 1986, the province's wage settlements were among the lowest in the country. Wage settlements were highest in Ontario, averaging 4.6 per cent annually, 2.8 percentage points higher than in British Columbia. During the first three quarters of 1987, Ontario continued to have the highest provincial wage settlements but the gap between British Columbia and Central Canada narrowed considerably due to British Columbia's improved economic performance.

British Columbia's wages are now almost in line with the rest of Canada. This competitive improvement, along with the increase in commodity prices, has helped to generate new investment and employment in the province's resource industries. However, the heavy bargaining calendar in 1988 will challenge business, labour and government to ensure that the hard-won gains in competitiveness are not lost.



Prospects and Challenges in 1988

The provincial bargaining calendar in 1988 is considerably more crowded than in 1987. Last year, 332 agreements expired, affecting 117,000 workers. In 1988, a total of 385 agreements will be expiring, affecting 212,000 workers. As well, many of these agreements involve large numbers of workers and have a high public profile. (See Table D1.) In the private sector, the International Woodworkers of America-Canada (IWAC), the two large pulp and paper unions, many of the construction trades and food service workers will be negotiating new contracts. In the provincial public sector, school teachers, ferry workers and the British Columbia Government Employees Union are the major employee groups that will be negotiating.

Table D1
Major Agreements Expiring in 1988

Bargaining Group	Approximate Number of Employees Covered	Expiry Date
Road Builders (Operating Engineers, Labourers and Teamsters)	12,000	February 29
Fish Processors	8,500	April 15
Construction Trades	28,200	April 30
International Woodworkers of America — Canada (IWAC)	19,100	June 14
IWAC, Canadian Paperworkers Union and Pulp and Paper Workers of Canada	25,400	June 30
B.C. Teachers	30,000	June 30
British Columbia Government Employees Union	32,500	July 31
B.C. Ferry Workers	1,900	October 31
Hotel and Restaurant Employees	7,500	October 31
Professional Employees (B.C. Government)	1,100	November 30
TOTAL, Major Agreements	166,200	

The impact of these negotiations on the provincial economy could be significant, especially if excessive wage settlements or disruptive work stoppages result. The four and one-half month IWAC strike in 1986 provides an example of the costly effect a work stoppage has on workers, their families, industry and the economy as a whole.

Realistic wage settlements are important in maintaining the competitiveness of the province's exports, as British Columbia's producers cannot pass on higher labour costs without losing customers. Since exports are a key driving force of the provincial economy, a loss of competitiveness would be reflected throughout the economy in job losses, reduced consumer expenditure and lower capital investment.

It should be noted that benefit packages and job security issues are also important components of the bargaining equation. Although the cost of changes to benefit packages and job security is difficult to ascertain, it cannot be ignored as benefits are often used as substitutes for wage increases and can represent a significant increase in business costs. For example, the recent General Motors agreement with the Canadian Auto Workers union included only a small increase in the hourly wage rate, but there was a substantial increase in the cost of the total compensation package due to the indexing of pensions and provision of other benefits.

To preserve British Columbia's competitive position, the upcoming wage negotiations present a major challenge both to the private and public sectors. The challenges facing the private sector are to ensure that wage settlements do not erode its competitive position and to avoid work

stoppages. The challenge facing the public sector is twofold: to ensure that public sector pay increases do not create an unfavourable "domino effect" that raises the compensation demands of private sector employees; and to keep government affordable for taxpayers.

The challenge facing the public sector is of particular importance at the present time as public wage settlements have exceeded private sector wage settlements since 1985. About 65 per cent of the provincial government's spending is for public sector salaries, including those of government employees and employees of bodies funded by the provincial government, such as hospitals and schools. This means that every one per cent increase in salaries increases government expenditure by approximately $75 million.

Conclusion

There are many uncertainties in the economic environment and business and government must be ready for all eventualities. Excessive wage settlements risk compounding the adverse impact of a possible slowdown in the U.S. economy. With roughly 50 per cent of the province's exports destined for the American market, a significant downturn in the U.S. economy would immediately affect British Columbia as prices and export volumes of minerals, natural gas and forest products would decline. This would lead to a decline in investment and a slowdown of employment growth. The recent appreciation of the Canadian dollar against its U.S. counterpart will also provide a challenge, particularly for those exporters who ship primarily to the United States.

To meet these challenges, public and private sector employers and employees must adopt realistic bargaining strategies. Employees' efforts and contributions to productivity gains should be acknowledged, but unjustifiably high wage settlements and disruptive work stoppages must be avoided if we are to preserve our hard-won gains in competitiveness and improve our reputation as reliable suppliers in world markets.

APPENDIX E

RESTORING THE FOREST RESOURCE

Introduction

British Columbia forests, which cover about 57 per cent of provincial land area, represent one of the richest sources of softwood lumber and high quality pulp products in the world. The forest resource has been a dominant factor in the economic development of the province and will continue as a pre-eminent source of wealth into the future.

Silviculture is the key to ensuring a continuing supply of valuable forest species for future generations. The government's commitment to ensuring forest renewal is detailed in recent legislative changes which outline a comprehensive silviculture policy for British Columbia.

Silviculture activities fall into the following categories:

- **Basic Silviculture** — This provides for the restocking of recently denuded land to a free-growing state. Activities include surveys, site preparation, planting trees and removing brush.
- **Incremental Silviculture** — This has two components: restocking the backlog of land, not satisfactorily restocked, to a free-growing state, and increasing the merchantable quantity and value of timber in established stands. Activities include juvenile spacing (removing inferior and excess trees from young stands), conifer release (removing deciduous growth which may be retarding the growth of conifers) and fertilization.
- **Nursery Operations** — These produce seedlings for basic and incremental silviculture.
- **Seed Operations** — These provide seed for the nurseries.

Recent Policy Changes

On December 17, 1987, the British Columbia Legislature unanimously approved amendments to the *Forest Act* ushering in a new era in the practice of silviculture. The amendments reflect the principle that the process and cost of regenerating a new forest is a responsibility which is directly related to the privilege of harvesting timber from Crown land.

The *Forest Amendment Act (No. 2), 1987* transfers to the industry the full responsibility for basic silviculture on areas harvested under major forest licences after September 30, 1987. Previously, the province financed basic silviculture by permitting forest firms to offset the costs for silviculture treatments against their assessed stumpage payments under Section 88 of the *Forest Act*.

Basic silviculture is defined in the *Forest Amendment Act (No. 2), 1987* as meaning:

"such harvesting methods and silviculture operations . . . as are prescribed to be required for the purpose of establishing a free growing crop of trees of a commercially valuable species."

The provincial government will retain funding responsibility for remaining basic silviculture treatments on areas harvested before October 1, 1987. In addition, the provincial government will have primary responsibility for incremental silviculture.

Privatization

As announced in 1987, the government plans to privatize nine of the eleven Ministry of Forests and Lands' nurseries with a view to achieving cost savings and encouraging greater operational efficiency. The Surrey Nursery and the Skimkin Nursery in Salmon Arm will be retained for research and to provide seedlings for reforestation of lands directly under the control of the ministry. The eleven nurseries currently produce one-half of the overall provincial seedling requirements. The remaining 50 per cent are produced by privately owned nurseries.

Multi-Year Commitment

Silviculture is a biologically sensitive investment that requires a multi-year commitment to realize long term benefits. The Ministry of Forests and Lands will introduce a new five year silviculture plan in the near future. This plan will reflect the forest industry's new responsibility for basic silviculture and a continuing provincial investment in incremental silviculture and silviculture required as a result of damage due to minor fires and pests.

Basic silviculture associated with the Small Business Forest Enterprise Program is funded by industry through timber sales revenue received through competitive bids and credited to the Small Business Forest Enterprise Special Account. Under this program, the provincial government carries out silviculture activities on behalf of small business operators.

The new five year (1988/89 to 1992/93) plan projects a significant increase in silviculture investment from the previous five year period, as indicated by the number of seedlings to be planted on Crown land.

Table E1

Forecast Number of Seedlings to be Planted on Crown Land 1988/89 to 1992/93

	1988/89	1989/90	1990/91	1991/92	1992/93
	Millions of Seedlings				
Government	193	165	159	134	129
Industry*	7	72	174	193	192
	200	237	333	327	321

* Forecast of industry planting is based on projected levels of harvest. Includes estimated planting under the Small Business Forest Enterprise Program.

It is forecast that an average of 284 million seedlings per year will be planted on Crown land over the period 1988/89 to 1992/93. This is more than double the previous five year annual average of 134 million seedlings.

Funding

Under the new forest policy there will be four main sources of funding for silviculture on provincial Crown land:

- Ministry of Forests and Lands' Operations Vote
- Industry Funded Basic Silviculture
- Small Business Forest Enterprise Special Account
- Forest Resource Development Agreement

The Ministry of Forests and Lands' Operations Vote, in addition to providing for the administration and monitoring of silviculture activities, is the source of funding for outstanding basic silviculture associated with areas harvested under major forest licences prior to October 1, 1987. The 1988/89 Estimates provide $148 million in spending authority for this purpose, a $94 million increase over the 1987/88 Estimates.

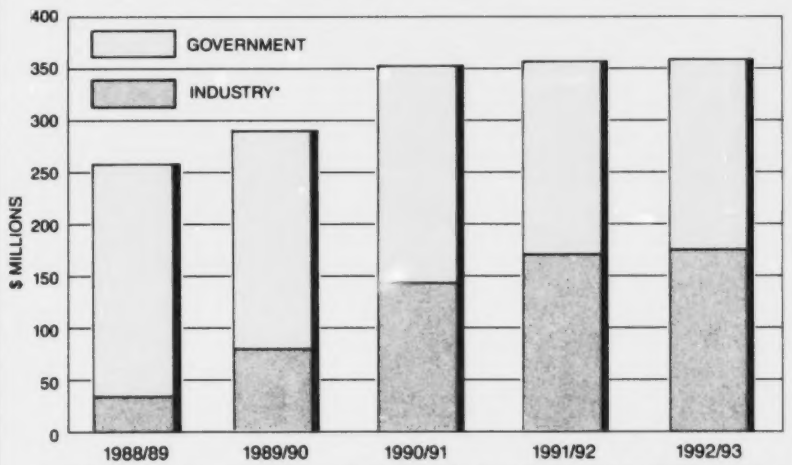
Industry-funded basic silviculture is the source of financing for basic silviculture associated with areas harvested under major forest licences after September 30, 1987. Based on the requirements set out in amendments to the *Forest Act*, industry investment is forecast at $28 million during 1988/89.

The 1988/89 Small Business Forest Enterprise Special Account provides $5.7 million for silviculture treatments on areas harvested under competitive timber sales in 1988/89. A further $28.4 million will be carried forward in the Account to provide for the future silviculture obligations related to the 1988/89 harvest.

The primary source of funding for incremental silviculture is the Forest Resource Development Agreement (FRDA), which is a five year, $300 million federal-provincial agreement. This agreement also provides funding for silviculture research and for evaluation of the activities undertaken through the agreement. The 1988/89 FRDA expenditures are estimated at $77 million with approximately equal sharing between the provincial and federal governments.

Overall, silviculture investment in British Columbia is projected to increase significantly over the period 1988/89 to 1992/93. This increase reflects a strong provincial commitment to ensure that British Columbia's forests provide a sustainable cycle of commercially valuable wood.

Projected Silviculture Investment in B.C. 1988/89 - 1992/93



*Estimated investment on areas harvested under major forest licences and the Small Business Forest Enterprise Program is based on projected levels of harvest.

APPENDIX F

FINANCING OF PUBLIC SCHOOL EDUCATION

Introduction

During the 1987/88 school year (July 1, 1987–June 30, 1988) total expenditure on public school education in British Columbia will be in excess of $2 billion. Provincial government contributions will finance over 80 per cent of this expenditure, residential taxes approximately 15 per cent, and the remaining 5 per cent will be financed through other locally raised funds.

The purpose of this Appendix is to show how public education is financed, to outline the contributions from provincial general revenue and residential taxpayers to public school expenditures, and to provide an outlook for the 1988/89 school year.

Overlapping Years

Public education financing involves three different years. The school year runs from July 1 to June 30, the provincial fiscal year runs from April 1 to March 31, and the taxation year runs from January 1 to December 31. The fiscal 1988/89 provincial government contribution will fund the April 1, 1988 to June 30, 1988 portion of the 1987/88 school year and the July 1, 1988 to March 31, 1989 portion of the 1988/89 school year. Property taxes levied in taxation year 1988 will fund the last 6 months of the 1987/88 school year and the first 6 months of the 1988/89 school year.

Provincial Contributions

The provincial contribution to public school education is provided through several programs. Table F1 shows the various components of funding for the 1987/88 and 1988/89 provincial fiscal years. A description of each component follows.

Table F1

Provincial Contributions to Public School Expenditures

	Provincial Fiscal Year		
	1987/88	1988/89	Increase
	$ millions		%
Contributions to school district shareable operating budgets	1,188.0	1,302.0	9.6
Contributions for schools debt service	108.6	118.3	8.9
Grants to reduce local school taxes	281.2	298.9	6.3
Teachers' Pension Fund	112.6	121.5	7.9
Special Projects	40.3	18.7	—
	1,730.7	1,859.4	7.4

Contributions to School District Shareable Operating Budgets

These expenditures represent the provincial contribution to local school district shareable operating budgets for public school programs. In establishing the size of this contribution, the

provincial government first determines the level of funding required to ensure that students across the province receive a good, basic education. This level of funding, called the "shareable operating budget", combines service level standards, such as the number of pupils per teacher in a given program area, with cost factors which recognize the costs of delivering the services.

The provincial government and local residential property taxpayers contribute to the financing of this shareable operating budget on the basis of a sharing formula aimed at ensuring that residential taxpayers across the province are taxed equitably. The sharing ratios in the formula vary across districts, depending on the local tax base, with the provincial share ranging from 55 per cent to 97 per cent.

The provincial government share, paid out as contributions to school district operating budgets, is funded from general revenue and a provincially imposed school tax on non-residential property. Contributions from non-residential school property taxes declined by $215 million between 1985 and 1987 as a result of two important 1985 budget changes:

- a three year phase out of property taxes on machinery and equipment; and,
- a three year reduction of non-residential school property tax rates to a 2:1 non-residential/ residential tax ratio.

The non-residential tax changes, which reduced the annual school property tax on about 90,000 non-residential properties by $215 million, were introduced to increase the competitiveness of British Columbia industry and encourage new industrial investment.

This decrease in non-residential school property taxes has been fully offset by increases in contributions from the provincial government's general revenue to fund its share of school district operating budgets. Non-residential school property tax revenues are forecast to rise from $460 million in the 1987/88 provincial fiscal year to $500 million in the 1988/89 provincial fiscal year.

The Minister of Education recently announced an increase of $175 million or 8 per cent in the shareable operating budget for the 1988/89 school year. Table F1 shows a 9.6 per cent or $114 million increase in 1988/89 provincial fiscal year contributions to school district shareable operating budgets. This increase will fund an 8 per cent increase in provincial contributions for the July 1, 1988 to March 31, 1989 portion of the shareable operating budget announced for the 1988/89 school year. In addition, it will fund increases in the shareable operating budget announced in March 1987 for the 1987/88 school year.

Contributions for Schools Debt Service

In addition to sharing in school district operating costs, the provincial government shares in the capital costs of school construction and equipment. The provincial contribution for the payment of interest and sinking fund charges ranges from 58 per cent to 97 per cent among districts and represents approximately 86 per cent of total school district debt servicing costs. In the 1988/89 provincial fiscal year, this contribution will increase by 8.9 per cent to $118.3 million.

Grants to Reduce Local School Taxes

These grants reduce residential property taxes paid by home owners to finance the local share of school district budgets. The $380 grant ($630 for senior citizens) which is provided to home owners as a deduction from their annual property taxes, resulted in owners of average priced homes in 38 of the 75 school districts paying no school taxes in 1987.

In the 1988/89 provincial fiscal year, provincial government expenditures on Home Owner Grants will increase 6.3 per cent to $298.9 million.

Teachers' Pension Fund

The provincial government, on behalf of school districts, contributes 100 per cent of the employers' statutory contribution to the Teachers' Pension fund for the 29,000 teachers employed by British Columbia school districts. In addition, the province funds the employers' portion of medical and dental expenses for all retired teachers. The 7.9 per cent increase in the 1988/89 provincial fiscal year includes additional employers' contributions to the Teachers' Pension Fund due to increased average teacher salaries and a teacher workforce increase of almost 800 in 1987.

Special Projects

In the 1988/89 provincial fiscal year, the provincial government will contribute $15 million to increase computer technology in British Columbia classrooms and a further $3.7 million for educational initiatives to strengthen links with British Columbia's Pacific Rim neighbours.

Residential Taxpayers' Contribution

Residential taxpayers contribute to public school expenditures through taxation year school property taxes. The level of taxes is based on three main factors:

- The local share of the shareable operating budget and debt service costs;
- The cost of additional services (referred to as the "supplemental budget") that locally elected school boards decide to provide in excess of the level of education recognized in the shareable operating budgets; and,
- The amount of locally raised funds and miscellaneous revenues applied to local school district expenditures.

These taxes are partially offset by the provincial government Home Owner Grant. In the 1987/88 school year, total residential school property taxes of $591.6 million were offset by $281.2 million in provincial Home Owner Grant payments, resulting in a residential tax contribution of $310.4 million. This contribution represents about 15 per cent of the total 1987/88 school year education bill of over $2 billion. The allocation of these tax contributions is shown in Table F2.

Table F2

Residential Taxpayers' Contribution to Public School Expenditures 1987/88 School Year (July 1, 1987–June 30, 1988)

Contribution to:	$ Million	% of Gross Taxes
Shareable operating budget	414.9	70.1
Debt servicing	27.2	4.6
Supplemental budget and non shareable capital	149.5	25.3
Gross residential property taxes	591.6	100.0
Less provincial Home Owner Grants	281.2	47.5
Net residential property taxes	310.4	52.5

As can be seen from Table F2, more than one quarter of gross residential taxes are dedicated to funding extra expenditures by school districts above the shareable operating budget.

Outlook for the 1988/89 School Year

In setting the size of the school district shareable operating budget for the 1988/89 school year, the provincial government took steps to ensure that all costs associated with providing a good, basic level of education were recognized. As a result, several costs and service levels not previously included in the shareable operating budget were recognized, such as additional support for severely handicapped students, support for small secondary schools, improvements to funding for teacher aides and the recognition of unique considerations in the funding of larger school districts. These changes were identified through a process of consultation with local school boards. In addition, the shareable operating budget includes provisions for reasonable salary and operating cost increases.

These adjustments, combined with the fact that school boards will have been advised of the provincial contribution before they set their 1988/89 school year budgets, should allow all school districts to provide an education program which meets each student's learning needs and to control their supplementary expenditures and the residential taxes required to fund them.

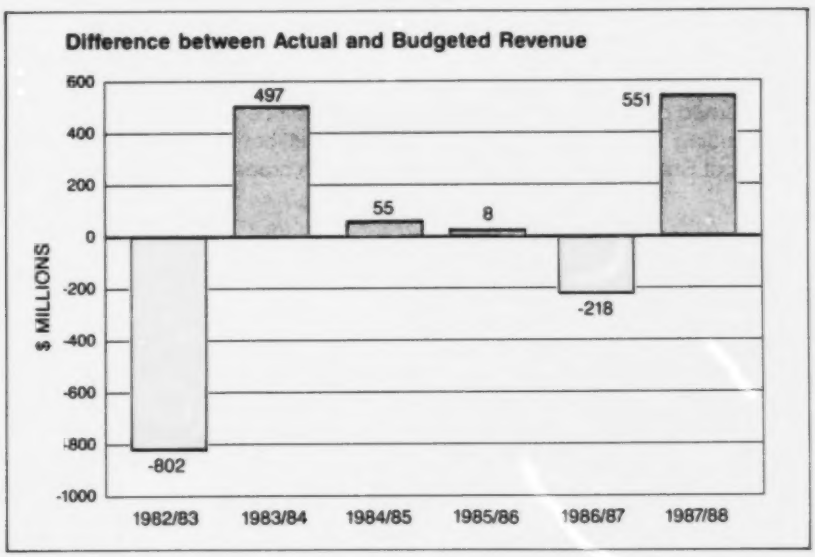
APPENDIX G

THE NEW SPECIAL FUNDS

The provincial government is committed to eliminating the deficit, reducing debt and stabilizing revenue. This year, two special funds — the Budget Stabilization Fund and the Privatization Benefits Fund — will be established to support these objectives.

Budget Stabilization Fund

The cyclical nature of the provincial economy means that provincial government revenue is extremely volatile. Actual revenue collections often differ significantly from budgeted revenue, as shown in the chart.



The volatility of provincial government revenue has made budget planning difficult. As well, in years when it becomes evident that revenue will be significantly below budget, it is difficult to make major expenditure reductions without significant disruption to the economy. As a result, the deficit increases.

In years when the economy is strong and revenue growth is above budget, there is pressure to expand existing programs or introduce new ones. The multi-year impact of this additional spending causes the deficit to increase in future years.

The Budget Stabilization Fund will reduce this problem. In years of strong revenue growth, transfers will be made into the Fund. In years of weak revenue growth, transfers will be made from the Fund to the government's General Fund. The Budget Stabilization Fund will thus act as a "shock absorber" and assist the government in meeting annual budgetary targets and achieving the goal of deficit elimination.

This year's strong revenue performance provides an opportune time to establish the Fund. Accordingly, the government will transfer $450 million of its increased 1987/88 revenue to the Budget Stabilization Fund. This includes $13 million in surplus lottery funds. In 1988/89 the transfer to the Fund is estimated at $124 million, including $79 million in surplus lottery funds and $45 million in interest earned on the Fund balance. This will provide the Fund with a balance of $574 million for future periods of revenue weakness.

The Lottery Fund Special Account is expected to provide an on-going source of revenue to the Budget Stabilization Fund. In recent years, surplus lottery funds have been used to pay off the Expo 86 Corporation deficit. Now that the Expo deficit is paid off, Lottery Fund Special Account surpluses will form part of the transfers to the Budget Stabilization Fund.

Privatization Benefits Fund

As part of its overall restructuring, the government is privatizing certain government services which can be provided more efficiently by the private sector.

In some cases the government expects to receive substantial non-recurring revenue from the sale of government assets. As is the case with other revenue windfalls, there is pressure to spend the one-time proceeds on on-going programs.

In order to ensure that the sale of government assets will provide a continuing benefit to British Columbians, the government will establish the Privatization Benefits Fund. Each year, interest income earned by the Privatization Benefits Fund will be transferred to the General Fund for budgetary spending. The capital balance of the Fund will, however, remain intact, allowing future generations of British Columbians to benefit from the proceeds of asset sales.

APPENDIX H

PROVINCIAL GOVERNMENT AND CROWN CORPORATION FINANCING

Overview

The provincial government and its Crown corporations and agencies incur debt to finance government operations and capital projects. At March 31, 1988, net direct, fiscal agency and guaranteed debt of the provincial government is expected to total $17.7 billion. During 1988/89 gross borrowing requirements of the provincial government and provincial Crown corporations and agencies are expected to total $1,619 million. However, after deducting debt repayments and sinking fund earnings and contributions, net requirements are estimated at $329 million, less than one half of the amount borrowed in 1987/88.

Total government debt, including fiscal agency and guaranteed debt, is expected to total $18.1 billion at March 31, 1989. This represents 27.8 per cent of provincial gross domestic product (GDP), the lowest level since March 31, 1983.

British Columbia government debt compares favourably to that of other provincial governments in Canada. In terms of total net debt in relation to GDP, British Columbia is well below the average for all provinces. Excluding the self-supporting debt of commercial Crown corporations, British Columbia net debt in relation to GDP is lower than all provinces except Alberta.

Financing Process

The provincial government issues direct debt for government purposes to finance its operations and funds the cost associated with this debt from government operating revenue.

Crown corporations and agencies have employed two methods to borrow funds. Under the first method, used exclusively until 1983, the corporation or agency borrows in its own name with a provincial government guarantee of the payment of principal, premium and interest.

The issuance of new guaranteed debt has been reduced significantly since the amendment in 1983 of the *Financial Administration Act* to authorize the provincial government to undertake direct borrowing for the purpose of relending the proceeds to Crown corporations and agencies.

This method of financing, known as fiscal agency borrowing, has been used increasingly in the last five years because relatively small financing requirements of several entities can be consolidated into one debt instrument issued on more favourable terms.

Regardless of the borrowing method used by Crown corporations, financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. In certain cases the provincial government provides a contribution to cover all or a part of debt service costs.

Government policy requires the establishment of sinking funds for essentially all debt with a term of five years or more, in order to provide for orderly repayment of the debt at maturity.

Composition of 1988/89 Borrowing and Debt

Gross direct borrowing requirements for provincial government purposes are estimated at $420 million during 1988/89. After deducting debt maturities and increases in sinking fund

Table H1

Financing Plan, 1988/89

	Forecast Net Debt Outstanding at March 31, 1988[1]	1988/89 Transactions — New Borrowing[2]	1988/89 Transactions — Less Repayment Provision[3]	Forecast Net Debt Outstanding at March 31, 1989
	($ millions)			
PURPOSES:				
Government	5,152.3	419.6	229.0	5,342.9
Crown Corporations				
Commercial:				
British Columbia Enterprise Corporation	139.3	36.0	13.8	161.5
British Columbia Hydro and Power Authority	8,154.3	571.0	746.1	7,979.2
British Columbia Railway Company	303.9	23.0	0.2	326.7
	8,597.5	630.0	760.1	8,467.4
Economic Development:				
British Columbia Ferry Corporation	79.8	—	6.2	73.6
British Columbia Steamship Company (1975) Ltd.	8.4	—	—	8.4
British Columbia Transit	1,134.6	59.0	19.5	1,174.1
Other[4]	32.5	—	—	32.5
	1,255.3	59.0	25.7	1,288.6
Social and Government Services:				
British Columbia Assessment Authority	4.0	—	—	4.0
British Columbia Buildings Corporation	419.3	54.0	21.7	451.6
British Columbia Educational Institutions Capital Financing Authority	378.4	50.0	18.8	409.6
British Columbia Regional Hospital Districts Financing Authority	749.9	200.0	61.4	888.5
British Columbia School Districts Capital Financing Authority	869.3	120.0	91.6	897.7
British Columbia Systems Corporation	47.1	(6.0)	1.3	39.8
School Districts, Colleges and Universities[5]	122.0	11.7	1.1	132.6
	2,590.0	429.7	195.9	2,823.8
Other:				
Greater Vancouver Sewerage and Drainage District	28.9	60.0	0.8	88.1
Greater Vancouver Water District	19.7	20.0	—	39.7
Other	44.6	1.0	1.7	43.9
	93.2	81.0	2.5	171.7
Crown Corporation Total	12,536.0	1,199.7	984.2	12,751.5
Less: Amounts held by General and Special Funds	17.0	—	—	17.0
Crown Corporation Total	12,519.0	1,199.7	984.2	12,734.5
GOVERNMENT AND CROWN CORPORATION DEBT TOTAL	17,671.3	1,619.3	1,213.2	18,077.4
SOURCES:				
Canada Pension Plan Investment Fund	4,406.6	354.2	48.9	4,711.9
Trusteed Funds				
Private Issues				
Public Issues	15,378.7	1,265.1	1,241.6	15,402.2
British Columbia Savings Bonds				
Total Before Sinking Funds	19,785.3	1,619.3	1,290.5	20,114.1
Sinking Funds	2,114.0	—	77.3	2,036.7
SOURCES OF FUNDS TOTAL	17,671.3	1,619.3	1,213.2	18,077.4

[1] Fiscal agency debt of the government which has been reloaned to Crown corporations is included with Crown corporation debt.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[4] Includes *Agricultural Credit Act, Farm Product Industry Act,* Terry Fox Medical Research Foundation and other agencies.

[5] Includes University of British Columbia, Simon Fraser University and interim capital construction financing obtained under the Certificate of Approval program.

[6] Includes Improvement Districts and other agencies.

balances, the net direct borrowing requirements are $191 million. As a result, debt incurred for government purposes is forecast to reach $5.3 billion, or 29.6 per cent of total direct and guaranteed debt outstanding at March 31, 1989.

Commercial Crown corporations, which include British Columbia Hydro and Power Authority, British Columbia Enterprise Corporation and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. Gross requirements of $630 million for these Crown corporations are expected to be more than offset by debt maturities and increases in sinking fund balances. As a result, net debt of commercial Crown corporations is expected to decrease by $130 million to approximately $8.5 billion, or 46.8 per cent of total net debt outstanding at March 31, 1989.

Economic development Crown corporations and agencies include the British Columbia Ferry Corporation, British Columbia Steamship Company (1975) Ltd. and British Columbia Transit. These corporations are generally operated as commercial corporations, but may not necessarily generate sufficient financial return to service their debt. Because these corporations and agencies provide economic benefits to the province, the government provides grants or other forms of assistance. During 1988/89, the gross requirements of economic development Crown corporations totalling $59 million will be partially offset by repayment and sinking fund provisions of $26 million. Net debt of economic development Crown corporations and agencies is expected to total $1.3 billion or 7.1 per cent of total net debt outstanding at March 31, 1989.

Social and government services debt has been used to fund social and government service capital projects. Financing authorities, which provide funds for the construction of hospitals, schools and post-secondary education institutions, comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local property tax levies. During 1988/89 the gross requirements of social and government service Crown corporations and agencies of $430 million are expected to be partially offset by repayment and sinking fund provisions of $196 million. Net debt for social and government services capital projects is expected to increase to $2.8 billion, or 15.6 per cent of total net debt outstanding at March 31, 1989.

Other debt includes guaranteed and fiscal agency debt of agencies which are not strictly provincial government bodies. The province has assisted these bodies, which include the Greater Vancouver Sewerage and Drainage District and the Greater Vancouver Water District, to obtain lower cost financing through the use of provincial guarantees and the province's fiscal agency debt program. Gross requirements of $81 million for these agencies will be partially offset by repayment and sinking fund provisions of $3 million. Net debt for other agencies is expected to be $172 million at March 31, 1989, or 0.9 per cent of total net debt outstanding.

Sources of Funds

Funds borrowed to date have come from a variety of sources including the Canada Pension Plan Investment Fund, provincial Trusteed Funds, private institutional lenders and public financial markets.

Borrowing from the Canada Pension Plan Investment Fund has been used mainly to finance social capital projects such as schools and hospitals. Provincial Trusteed Funds, which include provincial public sector pension funds and provincially administered sinking funds, at one time provided an important source of funds for government corporations. In recent years, however, less than 15 per cent of the province's borrowings have been from Trusteed Funds.

Most of the province's funds have been obtained through medium and long-term debt issues in public capital markets. Public issues have been undertaken in markets in Canada, the United States and Europe, in either Canadian or U.S. dollars. To a lesser extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. As in the

case of public issues, the ultimate liabilities on all private placements are payable in either Canadian or U.S. dollars.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly Treasury Bill auction raises funds for government purposes, and commercial paper has been issued for periods ranging from one day to one year.

In order to minimize costs, the government raises funds through a variety of debt instruments, depending upon financial market conditions and subject to an appropriate portfolio mix. The terms of the instruments are selected to match the expected life of assets acquired with the proceeds of the issue, to meet future repayment schedules for existing debt, and to ensure that risks associated with interest rate fluctuations are limited as far as possible.

The provincial government is currently considering a British Columbia savings bond issue as a means of meeting its operating requirements by using the savings of British Columbians to reduce borrowing outside the province.

Conclusion

Net direct, fiscal agency and guaranteed debt of the provincial government increased significantly during the early 1980s. At March 31, 1985 net debt peaked at 31.4 per cent of provincial GDP. Its estimated level of 27.8 per cent at March 31, 1989 is the lowest in six years, and reflects both the reduced borrowing requirements of Crown corporations and government deficit reduction.

APPENDIX

SUPPLEMENTARY TABLES

Table I 1
General Economic Indicators

	Unit or Base Period	1984	1985	1986	1987
Demographics:					
Population	June 1	2,847,700	2,870,100	2,889,000	2,925,700
Public school enrollment	September 30	491,085	486,692	486,221	491,234
Labour force	thousands	1,410	1,431	1,457	1,484
Employment	thousands	1,202	1,228	1,274	1,306
Unemployment rate	per cent	14.7	14.2	12.6	12.0
Main Economic Indicators:					
Provincial gross domestic product	$ millions	50,994	54,234	56,496	60,750[1]
Capital investment (new and repair)	$ millions	12,189	13,560	13,355	15,185
Retail sales	$ millions	13,005	14,304	15,567	17,087
Automobile sales	$ millions	892	1,096	1,337	1,489
Housing starts	dwelling units	16,169	17,969	20,687	28,944
Value of building permits	$ millions	2,004	2,190	2,420	2,710[1]
Value of exports	$ millions	11,659	12,315	12,715	15,200[1]
Incomes:					
Personal income	$ millions	43,792	46,778	48,812	51,500[1]
Wages and salaries	$ millions	24,368	25,967	26,656	28,137
Average weekly earnings	$	429	441	444	453
Prices:					
Consumer price index, Vancouver	1981 = 100	121.3	125.2	129.3	133.3
Consumer price index, Victoria	Dec. 1984 = 100	—	102.0	103.9	106.5
Commodity price index[2]	1980 = 100	89.7	84.8	90.1	117.7
Financial Indicators:					
Business incorporations	total	14,052	15,581	17,067	18,691
Business bankruptcies	total	1,477	1,331	1,445	1,268
Value of shares traded (Vancouver Stock Exchange)	$ millions	2,233	2,719	4,485	6,650
Personal savings deposits at chartered banks	$ millions	14,809	16,049	17,364	18,750[1]
Sector Indicators:					
Value of manufacturing shipments	$ millions	17,710	19,157	20,639	22,992
Timber scaled	thousand cubic metres	74,557	76,869	77,503	90,592
Lumber production	thousand cubic metres	30,884	32,994	31,468	37,455
Pulp and paper production	thousand tonnes	7,276	8,349	8,775	9,602
Gross value of mineral production	$ millions	3,355	3,428	3,218	3,402[3]
Petroleum and natural gas production	$ millions	998	1,050	778	838[3]
Power generation (net)	million kilowatt hours	52,369	59,126	50,759	63,067
Farm cash receipts	$ millions	970	1,026	1,027	1,056
Foreign visitor entries	thousands	3,912	4,165	6,997	4,762

[1] Ministry of Finance and Corporate Relations estimate.
[2] The *Economist* index converted to a Canadian dollar basis.
[3] Ministry of Energy, Mines and Petroleum Resources estimate.

Table I 2
Comparative Provincial Tax Rates, March 1, 1988

Tax	British** Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income (per cent of basic federal tax)[1]	51.5	46.5	50	54	50	(2)	58	56.5	55	60
Corporation income (per cent of taxable income)										
General rate/m&p*	14	15/9	17	17	15.5/14.5	5.9	15	15	15	16
Small business rate[3]/ m&p*	11	5/0	10/0	10	10	3.22	9	10	10	10
Corporation capital (per cent of taxable paid up capital)										
Non-financial corporations	*Nil*	*Nil*	0.5	0.3	0.3	0.48	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	2.0	*Nil*	3.0	3.0	0.6	0.97	2.0	1.5	*Nil*	2.0
Banks	2.0	*Nil*	3.0	3.0	0.8	0.97	2.0	1.5	*Nil*	2.0
Insurance premiums (per cent)[4]	3	3	3	3	3	3	3	3	2	4
Gasoline[5]										
Per cent of retail price	20	N/A	N/A	N/A	N/A	N/A	20	20	20	22
Cents per litre	7.89	5	7	8.0	8.3	14.4	8.4	8.7	8.9	9.8
Diesel fuel[5]										
Per cent of retail price	N/A	N/A	N/A	N/A	N/A	N/A	23	21	23	26
Cents per litre	8.33	5	7	9.9	9.9	12.45	8.0	9.0	10.4	12.1
Retail sales										
General rate (per cent)	6	*Nil*	7	7	7	9	11	10	10	12
Liquor (per cent)[6]	6	*Nil*	10	12	12	9	11	10	37.5	12
Meals (per cent)[7]	*Nil*	*Nil*	*Nil*	7	7	10	11	10	10	12
Accommodation (per cent)	8	5	7	7	5	*Nil*	11	10	10	12
Tobacco (cents per package of 25 cigarettes)[8]	104	100	117	137	90	113	106	112.5	87.5	158

*Manufacturing and processing rate.

**The following major changes were made in the March 24, 1988 budget:

- Effective July 1, 1988, the corporation small business income tax rate will be reduced to 9 per cent.
- Effective April 1, 1988, the insurance premium tax on vehicle insurance premiums will rise to 4 per cent.
- Effective April 1, 1988, the gasoline ad valorem tax will increase to 22.5 per cent.
- Effective April 1, 1988, the sales tax on liquor will increase to 10 per cent.
- Effective March 25, 1988, the tax on a package of 25 cigarettes will rise 9¢ per package to $1.13.

Refer to Appendix C for a more detailed description of revenue measures.

N/A—not applicable.

[1] Alberta, Saskatchewan, Manitoba and Ontario impose surtaxes at varying rates on income above specified levels and provide for tax reductions at low income levels. Alberta, Saskatchewan and Manitoba also levy flat rate surtaxes on net or taxable income.

[2] Quebec has its own personal income tax collection system.

[3] Some provinces have special provisions for newly incorporated small businesses.

[4] In some provinces, including British Columbia, different rates apply to life, sickness and accident insurance premiums. Most provinces also levy an additional tax of one per cent or less on fire insurance premiums.

[5] Tax rates apply to regular unleaded gasoline and to diesel fuel used on highways. British Columbia, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland adjust tax rates periodically, depending on fuel price fluctuations. The Saskatchewan fuel tax is rebated to Saskatchewan residents.

[6] Liquor served in commercial establishments is taxed at 10 per cent in Quebec and Ontario. The Prince Edward Island rate includes a 25 per cent tax under the *Health Tax Act*.

[7] Most provinces have a basic exemption for low priced meals.

[8] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. The rates for Newfoundland, Ontario and Manitoba include retail sales taxes.

Table 13

Financial Transactions
General Fund and Special Funds

	Actual 1984/85[1]	Actual 1985/86[1]	Actual 1986/87[1]	Revised Forecast 1987/88[1]	Estimate 1988/89
	($ millions)				
Financial Requirements:					
General Fund Revenue	8,773.5	9,097.0	9,408.7	10,322.0	11,440.0
General Fund Expenditure	9,767.4	10,063.5	10,569.4	11,122.0	11,835.0
General Fund Surplus (Deficit)	(993.9)	(966.5)	(1,160.7)	(800.0)	(395.0)
Transfer to Budget Stabilization Fund	—	—	—	450.0	124.0
Net Receipts (Disbursements) from Financing and Working Capital Transactions and Fiscal Agency Loans	111.3	105.7	(561.7)	(10.0)	43.0
Total Financial Requirements	(882.6)	(860.8)	(1,722.4)	(360.0)	(228.0)
Financial Sources:					
Net Direct Borrowing for Government Purposes	879.8	721.2	1,604.8	350.4	190.6
Decrease (Increase) in Cash and Temporary Investments	2.8	139.6	117.6	9.6	37.4
Total Financial Sources	882.6	860.8	1,722.4	360.0	228.0
Debt at Year End:					
For Government Purposes	2,475.9	3,197.1	4,801.9	5,152.3	5,342.9
For Crown Corporation Purposes:					
Fiscal Agency Debt	1,309.6	1,824.0	2,216.6	2,597.0	3,315.8
Guaranteed Debt	12,207.4	11,975.0	10,472.2	9,922.0	9,418.7
Total Crown Corporation Debt at Year End	13,517.0	13,799.0	12,688.8	12,519.0	12,734.5

[1] Restated to conform to the *1988/89 Estimates*.

Table I 4

Revenue by Source

	Actual 1984/85	Actual 1985/86	Actual 1986/87	Revised Forecast 1987/88	Estimate 1988/89	Annual Rate of Growth 1984/85 to 1988/89
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	1,853.3	2,073.1	2,248.1	2,790.0	2,784.0	10.7
Corporation income	366.2	323.5	280.6	443.0	557.0	11.1
Social service	1,331.5	1,451.8	1,540.8	1,460.0	1,657.0	5.6
Fuel	468.3	420.0	373.4	443.0	508.0	2.1
Tobacco	159.3	138.3	212.0	222.0	240.0	10.8
Property — business (school purpose)[1]	654.8	562.0	478.4	460.0	500.0	(6.5)
Property — rural area	41.0	38.2	35.8	36.0	40.0	(0.6)
Property purchase[2]	18.2	22.4	24.8	133.0	162.0	72.7
Corporation capital	87.0	94.3	87.2	60.0	25.0	(26.8)
Insurance premium	22.1	25.3	34.7	57.0	69.0	32.9
Hotel room	25.1	27.7	41.5	39.0	42.0	13.7
Horse racing	6.8	7.2	6.7	7.0	6.0	(3.1)
Total, taxation revenue	5,033.6	5,233.8	5,364.0	6,150.0	6,590.0	7.0
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties[3]	140.0	37.3	57.2	58.0	66.0	(17.1)
Permits and fees	97.8	133.6	68.1	93.0	90.0	(2.1)
Petroleum royalties	100.1	102.9	45.0	55.0	49.0	(16.4)
	337.9	273.8	170.3	206.0	205.0	(11.7)
Minerals	54.2	57.2	55.6	50.0	54.0	(0.1)
Forests:						
Logging tax	4.3	5.1	8.8	31.0	37.0	71.3
Timber sales	97.4	84.2	91.0	294.0	465.0	47.8
Small business forest enterprise program	—	29.7	41.4	48.0	123.0	—
Lumber export tax	—	—	21.3	278.0	—	—
Other forests revenue	25.6	25.2	22.8	36.0	64.0	25.7
	127.3	144.2	185.3	687.0	689.0	52.5
Water resources	190.8	213.9	235.6	213.0	250.0	7.0
Wildlife Act	10.7	10.5	10.8	11.0	12.0	2.9
	201.5	224.4	246.4	224.0	262.0	6.8
Total, natural resource revenue	720.9	699.6	657.6	1,167.0	1,210.0	13.8

[1] For comparative purposes, revenue for 1987/88 and earlier has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue in 1988/89.

[2] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 and earlier has been reclassified as Property Purchase Tax revenue.

[3] Includes British Columbia Petroleum Corporation net income for 1984/85 and 1985/86.

[4] Includes public gaming licence fees previously included in lottery revenue.

Table I 4

Revenue by Source — *Continued*

	Actual 1984/85	Actual 1985/86	Actual 1986/87	Revised Forecast 1987/88	Estimate 1988/89	Annual Rate of Growth 1984/85 to 1988/89
	($ millions)					(per cent)
Other Revenue:						
Medical Services Plan premiums[1]	328.8	355.2	380.8	414.0	555.0	14.0
Other sales and services	183.4	198.4	256.4	262.0	284.0	11.6
Motor-vehicle licences and permits	124.2	116.3	129.0	138.0	165.0	7.4
Other licences and permits[4]	46.4	50.6	55.8	64.0	73.0	12.0
Fines and penalties	16.2	15.1	17.9	18.0	25.0	11.5
Interest from investments	106.3	84.4	53.2	53.0	53.0	(16.0)
Miscellaneous	60.6	50.2	53.1	52.0	53.0	(3.3)
Total, other revenue	865.9	870.2	946.2	1,001.0	1,208.0	8.7
Contributions from Government Enterprises:						
Liquor Distribution Branch	355.9	398.4	424.3	417.0	425.0	4.5
Other	4.4	—	22.3	23.0	23.0	51.2
Total, contributions from government enterprises	360.3	398.4	447.6	440.0	448.0	5.6
Contributions from the Federal Government:						
Established Programs Financing	1,059.5	1,091.3	1,205.3	1,215.0	1,297.0	5.2
Canada Assistance Plan	572.9	595.7	611.3	631.0	623.0	2.1
Other	158.6	138.6	176.7	168.0	188.0	4.3
Total, contributions from the federal government	1,791.0	1,825.6	1,993.3	2,014.0	2,108.0	4.2
Non-Recurring Revenue	1.8	69.4	—	—	—	—
Total Revenue	8,773.5	9,097.0	9,408.7	10,772.0	11,564.0	7.1
Less Transfer to Budget Stabilization Fund	—	—	—	(450.0)	(124.0)	—
TOTAL GENERAL FUND REVENUE	8,773.5	9,097.0	9,408.7	10,322.0	11,440.0	6.9

[1] For comparative purposes, revenue for 1987/88 and earlier has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue in 1988/89.

[2] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 and earlier has been reclassified as Property Purchase Tax revenue.

[3] Includes British Columbia Petroleum Corporation net income for 1984/85 and 1985/86.

[4] Includes public gaming licence fees previously included in lottery revenue.

Table I 5

Expenditure by Function

	Actual 1984/85	Actual 1985/86	Actual 1986/87	Revised Forecast 1987/88	Estimate 1988/89	Annual Rate of Growth 1984/85 to 1988/89
			($ millions)			(per cent)
Health	2,835.5	2,942.3	3,261.9	3,375.0	3,572.0	5.9
Social Services	1,484.5	1,526.9	1,491.9	1,673.7	1,892.4	6.3
Education	2,365.7	2,297.2	2,392.3	2,588.2	2,764.6	4.0
Transportation and communications	765.8	1,081.0	975.4	822.8	709.4	(1.9)
Natural resources, trade and industrial development	528.5	659.9	614.9	710.0	876.1	13.5
Protection of persons and property	411.3	427.1	453.3	483.4	515.5	5.8
Aid to local government	286.6	297.9	392.3	403.7	424.2	10.3
Debt servicing	274.6	341.9	393.6	545.0	605.0	21.8
General government	169.7	161.3	195.6	236.4	187.5	2.5
Housing	72.9	87.9	101.9	82.0	86.8	4.5
Recreational and cultural services	58.9	67.5	66.7	73.2	89.5	11.0
Other	513.4[1]	172.6[2]	229.6[3]	128.6	112.0	(31.7)
TOTAL GENERAL FUND EXPENDITURE	9,767.4	10,063.5	10,569.4	11,122.0	11,835.0	4.9

[1] Includes a $430 million payment to the British Columbia Railway Company to provide for the retirement of the historic debt of the Railway.

[2] Includes a positive Crown corporation valuation adjustment of $54,618,300.

[3] Includes a negative Crown corporation valuation adjustment of $88,447,000.

Table 16

Government and Crown Corporation Net Debt Summary for Years Ending March 31.[1]

	1983	1984	1985	1986	1987
	($ millions)				
Government Purpose	883.1	1,596.1	2,475.9	3,197.1	4,801.9
Crown Corporation Net Debt					
Commercial:					
British Columbia Enterprise Corporation	—	—	—	—	109.5
British Columbia Hydro and Power Authority	7,661.4	8,335.8	8,918.2	8,826.4	8,375.5
British Columbia Petroleum Corporation	30.0	30.0	30.0	30.0	30.0
British Columbia Place	—	65.3	107.9	141.0	—
British Columbia Railway Company[2]	—	—	367.0	319.2	304.2
	7,691.4	8,431.1	9,423.1	9,316.6	8,819.2
Economic Development:					
British Columbia Development Corporation	142.9	143.7	169.1	191.0	—
British Columbia Ferry Corporation	59.0	43.6	43.2	86.3	85.9
British Columbia Housing and Employment Development Financing Authority	8.2	189.3	179.7	149.4	26.6
British Columbia Railway Company[2]	876.7	1,016.4	—	—	—
British Columbia Steamship Company (1975) Ltd.	3.9	4.8	4.9	5.7	3.1
British Columbia Transit	84.1	326.7	648.0	950.7	1,016.3
Expo 86 Corporation	—	43.9	206.4	286.8	98.7
W.L.C. Developments Ltd.	—	9.2	15.7	23.8	4.1
Other[3]	27.7	23.0	16.9	42.6	32.4
	1,202.5	1,800.6	1,283.9	1,736.8	1,267.1
Social and Government Services:					
British Columbia Assessment Authority	—	3.6	3.3	3.6	4.5
British Columbia Buildings Corporation	563.3	631.7	616.9	607.0	388.9
British Columbia Educational Institutions Capital Financing Authority	310.6	385.3	395.3	393.7	390.1
British Columbia Regional Hospital Districts Financing Authority	686.8	741.8	748.5	712.3	714.7
British Columbia School Districts Capital Financing Authority	1,022.0	996.6	976.8	912.5	878.3
British Columbia Systems Corporation	54.5	51.6	52.0	53.5	43.9
School Districts, Colleges and Universities[4]	—	—	23.1	63.9	103.7
	2,637.2	2,810.6	2,815.9	2,746.5	2,524.1
Other:					
Greater Vancouver Sewerage and Drainage District	—	—	—	—	29.7
Greater Vancouver Water District	—	—	—	—	19.8
Other[5]	32.2	25.0	28.9	38.0	45.9
	32.2	25.0	28.9	38.0	95.4
Less Amounts Held as Investments by General and Special Funds	136.4	74.4	34.8	38.9	17.0
Total Guaranteed and Direct Debt	**12,310.0**	**14,589.0**	**15,992.9**	**16,996.1**	**17,490.7**

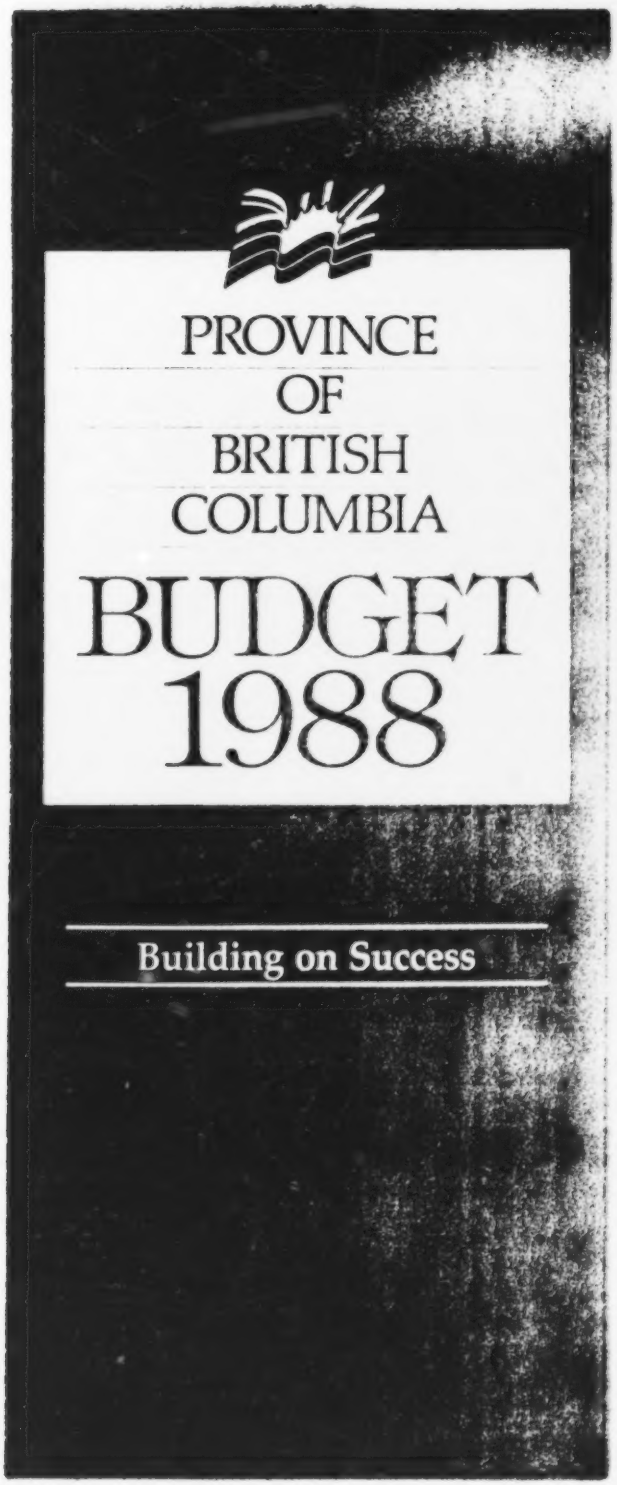
[1] Net debt is after deduction of sinking funds. Government purpose and fiscal agency debt excludes accrued interest, which is shown in the *Public Accounts* under "Accounts Payable and Accrued Liabilities", while guaranteed debt includes accrued interest.

[2] Prior to 1984/85 debt outstanding for British Columbia Railway Company was considered to be economic development debt; for 1984/85 and later, this debt was considered to be commercial debt.

[3] Includes British Columbia Cellulose Company, *Agricultural Credit Act*, *Farm Product Industry Act* and Terry Fox Medical Research Foundation.

[4] Includes University of British Columbia, Simon Fraser University and short-term interim capital construction financing obtained under the Certificate of Approval Program.

[5] Includes *Municipalities Assistance Act*, *Municipal Act* and Student Aid Loans.


PROVINCE
OF
BRITISH
COLUMBIA
BUDGET
1988
Building on Success

BUILDING ON SUCCESS

Minister's message

In last year's budget, the provincial government set a course designed to promote fairness in taxation, a positive climate for development, greater assistance for the disadvantaged and increased investment in people as our most important resource.

One year later, results of this positive program are already seen in strong economic and employment growth.

Between January, 1987 and January of this year, more than 90,000 jobs were created. That's an increase of 7.3 per cent.

As we drafted our second budget, we wanted to see the trend continue.

The job of encouraging economic expansion is made easier by the improved harmony we are experiencing in the workplace. This government's *Industrial Relations Act*, introduced last year, established a new framework for labour relations in British Columbia.

Continued co-operation between labour and management is essential to sustained prosperity.

We are forecasting economic growth of 2.7 per cent this year, and steady growth into the 1990s.

This year's budget stresses important fiscal goals of reducing the current deficit and providing a way to stabilize government revenues.

However, we will not sacrifice excellence in education, health care or social services to achieve fiscal goals. This brochure outlines some of the steps the government is taking to balance excellence of service with responsibility in spending.

Honourable Mel Couvelier,
Minister of Finance and Corporate Relations.

Education

- $114 million increase in contributions to school districts.
- $7.4 million more in grants to independent schools, bringing their total government funding this year to $48 million.
- $15 million to launch year one of a multi-year program to expand computer technology in British Columbia classrooms.
- $8.5 million for the Passport to Education program which allows students to win financial credits toward their post secondary education.

Post secondary education

- funding for student financial assistance will more than double to a total of $58 million in 1988/89.
- five per cent more in university operating grants for a total of $332 million.
- operating grants for colleges and institutes will total $287 million this year.
- nine per cent more for distance education programs, for a total of $17 million, allowing greater equality of access to education for British Columbians even if they live in remote areas.

Social services

- $2.1 million for the victim services program which provides many types of support to people who have been victims of crime.
- $15 million over two years to implement the maintenance enforcement program, designed to force spouses subject to court orders to pay support to their families.
- $1.4 million more for payments under the *Criminal Injury Compensation Act* to a total of $6.3 million.
- just over $2 million more for legal aid for an increase of 11 per cent.
- $17.5 million more for rehabilitation of the disabled and to help disabled people get out of institutions and back into the community, to a total of $174.8 million.
- $8.6 million more for foster homes and services for families and children to a total of $114.4 million.
- $3 million more for children's daycare funding to a total of $38.2 million.

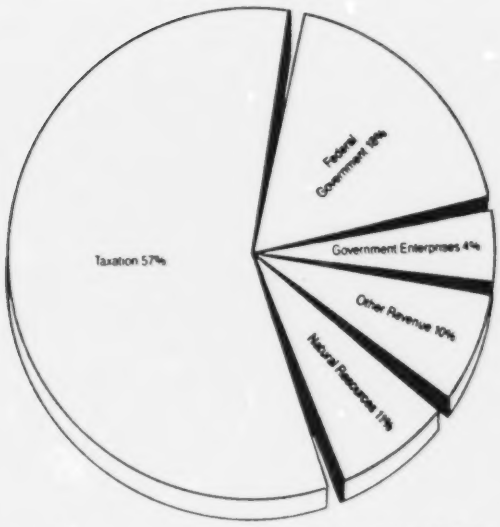
Economic development

- small business income tax rate cut from 11 per cent to nine per cent on July 1, 1988.
- $1.9 million more, representing an increase of 52 per cent, to expand foreign trade offices.
- $31.7 million more, an increase of 148 per cent to a total of $53 million, under the Ministry of Forests and Lands Small Business Forest Enterprise Program.
- $1.5 million more, or, an increase of 32.6 per cent, for mineral mapping activities to a total of $6.1 million.
- reduction of the mineral resource tax rate from 17.5 per cent to 15 per cent and the mining tax rate from 15 per cent to 12.5 per cent.
- new $16 million regional seed capital program, involving government loan guarantees made by financial institutions to small business to a maximum of $50,000 per loan.
- new assessment deduction for property tax purposes on all tourist accommodation to a maximum deduction of $150,000.

Health care

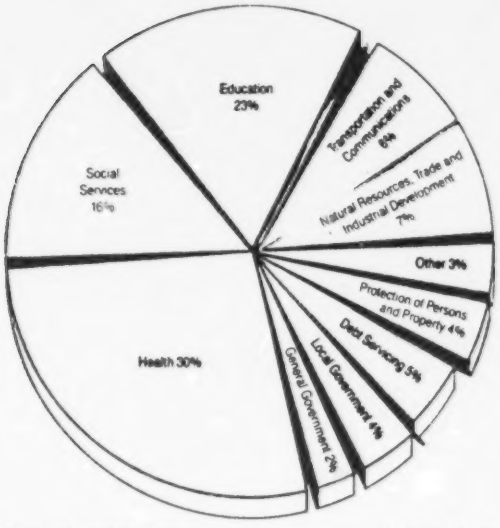
- total Ministry of Health spending up 10.2 per cent to over $3.9 billion.
- increases in Medical Services Plan premiums to cover a greater proportion of health care costs.
- 11.5 per cent more for the Medical Services Commission, to almost $1.1 billion.
- 11.4 per cent more for Pharmacare for a total of $178.4 million.
- $174 million more, an increase of 10.1 per cent, in hospital programs funding to a total of almost $1.9 billion.
- 12.5 per cent more for emergency health services to a total of $61.7 million.
- 10.6 per cent more for continuing care services for a total of $357 million.

REVENUE
BUDGET 1988/89

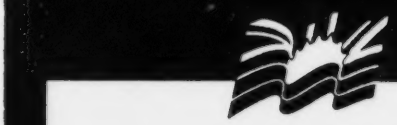


Total Revenue	$11.440 billion
Total Revenue Per Person	$3,834

EXPENDITURE
BUDGET 1988/89



Total Expenditures	$11.835 billion
Total Expenditure Per Person	$3,967



PROVINCE
OF
BRITISH
COLUMBIA

BUDGET 1988

Measures for Business

MEASURES FOR BUSINESS

The provincial government's business incentive programs in the 1988/89 budget will stimulate activities in areas ranging from high technology to education and from forestry to foreign trade.

Each incentive is different and targeted to special regions, markets, producers, consumers and traders. But, they all have the same goal: keeping British Columbia up-to-date and competitive in the modern marketplace.

This brochure outlines some of the provincial government's new or expanded programs.

Lifting the burden of taxes

The income tax rate on small business in British Columbia — the sector that leads the way in creating jobs — is being cut from 11 per cent to nine per cent effective July 1, 1988.

Our service sector — where most small businesses operate — already provides 76 per cent of all jobs in British Columbia. The lighter tax burden should allow them to expand and hire more people.

The burden of taxes will also be eased for the mining industry. Effective July 1, 1988 the mineral resource tax rate will be reduced from 17.5 per cent to 15 per cent and the mining tax rate from 15 per cent to 12.5 per cent.

And, in recognition of the growing importance of British Columbia's tourism industry, a new deduction for property tax purposes will take effect for the 1989 tax year. Owners of about 2,800 hotels, motels, recreational trailer parks, campgrounds and resorts will have property taxes reduced by up to $4,500 as a result of this change.

Regional equality of access

The provincial Ministers of State for the eight economic development regions will be able to review and assess proposals for loan guarantees totalling up to $2 million in each region to help small businesses obtain financing.

Distributing the money regionally — with increased sensitivity to local needs — will mean equal access for all British Columbians to the province's resources.

Adopting new technology

British Columbia industry and universities can qualify for research and development funding from a budget allocation for new programs.

Spreading the forest wealth

Budget 1988/89 provides 148 per cent more money — to a total of $53 million this year — to market timber for competitive sale, under the Small Business Forest Enterprise Program, to smaller forest companies.

Increased sales to small business will promote diversity and employment in the forestry sector.

Educated to compete

The government is putting more money behind its belief that the best resource for economic competition is well educated and trained women and men.

Among several areas of increased education spending, the budget provides $15 million to launch the first year of a multi-year program to upgrade and add more computers in classrooms.

Better contacts for world trade

The Ministry of Economic Development's budget will include almost $1.9 million in new funding for our foreign trade offices for a total of $5.6 million.

Competition — it's our business

Taken together these new initiatives build on years of effective programs of business incentives from the provincial government.

British Columbia is selling products on the world market today in industrial sectors that were only economic planners' dreams a decade ago: state-of-the art submersibles, robotics, high-tech communications, to name just a few.

PROVINCE
OF
BRITISH
COLUMBIA

BUDGET 1988

Education and Advanced Education The Investment Grows

Education and Advanced Education
The Investment Grows

The Government of British Columbia recognizes a very important principle in its programs of education funding: public money isn't being spent, it's being invested.

The investment is blue chip, providing British Columbians with the education and training to meet the highest standards in any field.

In science, in applied technology, in social services, and in trade and commerce, young British Columbians are being prepared for future challenges.

Post secondary students, in particular, will benefit — funding for the student financial assistance program will more than double to $58 million this year.

Public and independent schools

- The overall budget for the Ministry of Education is being increased eight per cent over 1987/88, to just under $2 billion.
- Individual school districts across the province will receive $114 million more than they did last year.
- Students will also benefit from a $15 million expenditure to expand computer technology in classrooms throughout British Columbia. The younger our students get introduced to computers, the better.
- The innovative Passport to Education program — where students are rewarded for achievement and excellence — will receive $8.5 million this year.
- British Columbia's Pacific Rim initiatives in education will receive almost $3.7 million. The funding will promote more exchanges and cultural links between our students and educators and their counterparts in nations of the Pacific Rim.

Independent schools

- British Columbia's independent schools are part of the investment. This year they will receive almost $7.4 million more in grants for increased enrolments and higher funding levels announced in last year's budget.
- Total provincial government funding for recognized independent schools will be $48 million this year.

Universities

- Operating grants for universities will increase by five per cent. Total university operating grants this year will be just under $332 million.
- The provincial government will contribute $4 million in cash and $4 million in land toward the construction of a new forestry research centre at the University of British Columbia.

Colleges and institutes

- Operating grants for colleges and institutes will be just over $287 million.

Student financial assistance

- The budget for student financial assistance will more than double in 1988/89.
- Total allocation for loans, grants and payments to limit student debt will rise to just over $58 million.

Distance education

- In the belief education services should be equally available to all British Columbians, regardless of where they live, funding for distance education will be increased by nine per cent this year.
- Funding for distance education — which includes university and college courses and instruction by television satellite over the Knowledge Network — will rise to just over $17 million.